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A/72/5/Add.16

**United Nations Joint Staff Pension Fund**

# Financial report and audited financial statements

**for the year ended 31 December 2016**

**and**

# Report of the Board of Auditors

United Nations • New York, 2017

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*Note*

Symbols of United Nations documents are composed of letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

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## Letters of transmittal

### Letter dated 24 April 2017 from the Chief Executive Officer of the United Nations Joint Staff Pension Fund and the Representative of the Secretary-General for the investment of the assets of the United Nations Joint Staff Pension Fund addressed to the Chair of the Board of Auditors

In accordance with financial rule G.5 of the United Nations Joint Staff Pension Fund, we have the honour to transmit the financial statements of the United Nations Joint Staff Pension Fund for the year ended 31 December 2016, which we hereby approve. The Chief Executive Officer of the Fund and the Representative of the Secretary-General for the investment of the assets of the Fund approve the financial statements for their respective areas of responsibility. The financial statements have been completed and certified by the Chief Financial Officer of the Fund as correct in all material respects.

(*Signed*) Sergio B. **Arvizú**
Chief Executive Officer
United Nations Joint Staff Pension Fund

(*Signed*) Carolyn **Boykin**
Representative of the Secretary-General
for the investment of the assets of the
United Nations Joint Staff Pension Fund

## Letter dated 30 June 2017 from the Chair of the Board of Auditors addressed to the President of the General Assembly

I have the honour to transmit to you the financial statements of the United Nations Joint Staff Pension Fund for the year ended 31 December 2016, which were submitted by the Chief Executive Officer of the Fund and the Representative of the Secretary-General for the investment of the assets of the Fund. The statements have been examined by the Board of Auditors.

In addition, I have the honour to transmit the report of the Board of Auditors with respect to the above-mentioned accounts, including the audit opinion thereon.

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor General of India
Chair of the Board of Auditors

# Chapter I

## Report of the Board of Auditors on the financial statements: audit opinion

### Opinion

We have audited the financial statements of the United Nations Joint Staff Pension Fund, which comprise the statement of net assets available for benefits (statement I) as at 31 December 2016 and the statement of changes in net assets available for benefits (statement II), the cash flow statement (statement III) and the statement of comparison of budget and actual amounts (statement IV) for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the net assets available for benefits of the United Nations Joint Staff Pension Fund as at 31 December 2016 and the changes in net assets available for benefits and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (IPSAS) and International Accounting Standard 26.

#### Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing. Our responsibilities under those standards are described in the section below entitled "Auditor's responsibilities for the audit of the financial statements". We are independent of the United Nations Joint Staff Pension Fund, in accordance with the ethical requirements relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Information other than the financial statements and the auditor's report thereon

Management is responsible for the other information, which comprises the financial report for the year ended 31 December 2016, contained in chapter IV below, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, on the basis of the work that we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of management and those charged with governance for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS and International Accounting Standard 26 and for such internal control as management determines to be necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the ability of the United Nations Joint Staff Pension Fund to continue as a going concern, disclosing, as applicable, matters related to the going concern and using the going-concern basis of accounting unless management intends either to liquidate the United Nations Joint Staff Pension Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of the United Nations Joint Staff Pension Fund.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentation or the overriding of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the United Nations Joint Staff Pension Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Draw conclusions as to the appropriateness of management's use of the going-concern basis of accounting and, on the basis of the audit evidence obtained, whether a material uncertainty exists in relation to events or conditions that may cast significant doubt on the ability of the United Nations Joint Staff Pension Fund to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are

inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the United Nations Joint Staff Pension Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Report on other legal and regulatory requirements**

Furthermore, in our opinion, the transactions of the United Nations Joint Staff Pension Fund that have come to our notice or that we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and Rules of the United Nations and the financial rules of the United Nations Joint Staff Pension Fund and their legislative authority.

In accordance with article VII of the Financial Regulations and Rules of the United Nations, we have also issued a long-form report on our audit of the United Nations Joint Staff Pension Fund.

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor General of India
Chair of the Board of Auditors
(Lead Auditor)

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the
United Republic of Tanzania

(*Signed*) Kay **Scheller**
President of the German Federal Court of Auditors

30 June 2017

# Chapter II
# Long-form report of the Board of Auditors

*Summary*

The United Nations Joint Staff Pension Fund was established in 1949 by the General Assembly to provide retirement, death, disability and related benefits for the staff of the United Nations and other organizations admitted to the membership of the Fund. It is administered by the United Nations Joint Staff Pension Board.

The Board of Auditors (the Board) audited the financial statements of the United Nations Joint Staff Pension Fund (the Fund) and reviewed its operations for the year ended 31 December 2016 in accordance with General Assembly resolutions 74 (I) of 1946 and 680 (VII) of 1952 and in conformity with article VII of the Financial Regulations and Rules of the United Nations and the International Standards on Auditing. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of the Fund as at 31 December 2016 and were in accordance with the International Public Sector Accounting Standards (IPSAS) and International Accounting Standard (IAS) 26. The audit was carried out through a review of the financial transactions and operations at the Fund's headquarters in New York, covering both the Investment Management Division and the secretariat of the Fund. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

**Audit opinion**

The Board issued an unqualified opinion on the financial statements of the Fund as reflected in chapter I of the present report.

**Overall conclusion**

The Fund has successfully prepared financial statements in accordance with IAS 26 and following the provisions of IPSAS since 2012. While there were no material deficiencies in the financial statements prepared by the Fund, the Board identified scope for improvements in the disclosures in the notes to the financial statements that would enhance the completeness and transparency of the information provided to the stakeholders. The Board observed that the information supplied to the actuary for valuation of pension benefits payable as at 31 December 2015 was inconsistent with the data provided with the financial statements.

The Fund needs to strengthen the risk management and control processes besides the investment strategy to achieve the minimum long-term required return of 3.5 per cent to achieve fully-funded status. The Fund should also take steps to improve the performance of its investments and reduce foreign currency losses. There is also scope for improvement in processing pension benefits and client services, particularly in redressing the complaints of the beneficiaries. The Fund should take proactive steps in collaboration with member organizations to expedite the receipt of the documents required for calculating and awarding pension benefits. There is also a need to streamline the procedures for obtaining the certificate of entitlement and the reconciliation of contributions received from member organizations.

**Key findings**

*Actuarial valuation*

Article 12 of the Regulations of the Fund provides that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years. On the basis of the examination of the actuarial valuation, the Board found anomalies in the data supplied to actuaries for making calculations. The number of participants indicated in the financial statements for 2015 was 126,892, whereas in the actuaries' report the number cited was 114,375. The number of benefits disbursed to the retired participants by the Fund was 71,474 in the financial statements for 2015, whereas the corresponding figure in the actuaries' report was 75,299. Therefore, the Board opined that the valuation done by the actuary was based on inconsistent data and was not reliable. On this being pointed out, the Fund decided not to use the actuarial valuation for disclosure in the notes to the financial statements and instead roll forward the previous actuarial valuation as at 31 December 2013 to 31 December 2016.

**Investment Management Division**

*Risk management*

In April 2017, the Fund subclassified the risk budget for fixed income at the currency and duration levels. However, for the equities, the risk budget has been allocated only on the basis of equity portfolio by region, and no suballocation between countries or currencies has been made. The Board also observed that no risk budget has been prepared for real assets, alternative investments and cash and cash equivalents.

*Foreign currency losses*

The Fund has been experiencing foreign currency losses since 2013, which has resulted in a total foreign currency loss of $4.68 billion. The foreign currency losses are in all asset classes during 2016. The Board in its previous audits had raised concern over the foreign currency losses and had recommended employing suitable procedures and tools to mitigate them. The Fund informed the Board that procurement of an expert is under way to conduct a formal currency study, which would include a review of foreign currency exposure and related tools.

*Business continuity and disaster recovery planning*

The disaster recovery protocols were enabled in the Investment Management Division only for services related to portfolio management, trade execution, financial analytical systems, accounting, trade matching and settlement, and risk and compliance. The protocol for services related to information technology/operations was not enabled.

The Investment Management Division has not carried out a business impact analysis study. Furthermore, the business continuity and disaster recovery plan does not define the recovery time objectives for all critical applications.

**Benefits payment management**

*Implementation of the Integrated Pension Administration System*

The Board observed various issues in the implementation of the Integrated Pension Administration System, as indicated below:

(a) Manual interventions are required at many steps in the processing of a case;

(b) The input controls are not enforced;

(c) Limited utility of the employer self-service and the member self-service modules;

(d) Incomplete migration of the data to the Integrated Pension Administration System;

(e) Lack of inbuilt management information system reports.

*Time taken to process the benefits in the Integrated Pension Administration System*

In 2016, the Fund processed 27 per cent of cases within the benchmark of 15 business days.

*Client grievance redressal system*

In the absence of a documented client grievance redressal mechanism, there is no guidance on segregation, prioritization or the timeline for the disposal of queries. There is no centralized system to register the queries by giving each one a unique serially controlled tracking number. It is therefore not possible to monitor the action taken and the resolution of the issue raised in the query. There is no reporting system in place with respect to monitoring the status of queries.

**Main recommendations**

The Board recommends that the United Nations Joint Staff Pension Fund:

(a) **Strengthen its internal control procedure to ensure the accuracy of data before sending them for the actuarial valuation and carry out a fresh actuarial valuation as at 31 December 2017;**

(b) **Prepare a detailed risk budget for all categories of the assets;**

(c) **Expedite the currency study so as to further strengthen foreign currency management and control and reduce risks by employing suitable strategies;**

(d) **Update the business continuity and disaster recovery plan in the Investment Management Division by including all the critical applications, determine recovery time objectives for all critical applications and carry out a business impact analysis study in view of the criticality of its operations;**

(e) **(i) Explore the possibility of further automating various steps in benefits processing; (ii) build input controls to ensure standardized information in the Integrated Pension Administration System; (iii) enhance the functionalities of the member self-service and employer self-service modules; and (iv) resolve data issues resulting from the migration to the Integrated Pension Administration System;**

(f) **Prescribe a time frame for processing each type of entitlement or benefit;**

(g) **Document a client grievance redressal mechanism and include procedures for indexing, segregating, prioritizing and monitoring the queries.**

*Implementation of outstanding recommendations*

The Board followed up on the 26 outstanding recommendations up to the year ended 31 December 2015 and noted that 5 (19 per cent) had been fully implemented and 21 (81 per cent) were under implementation.

| Key facts | |
|---|---|
| **23** | Number of member organizations |
| **128,262** | Participants in the Fund (2015: 126,892 participants) |
| **74,778** | Benefits paid in 2016 (2015: 71,474) |
| **$54.73 billion** | Total assets (2015: $52.45 billion) |
| **$237.64 million** | Total liabilities (2015: $320.21 million)[a] |
| **$54.49 billion** | Net assets available for benefits (2015: $52.13 billion) |
| **$2.67 billion** | Investment income (2015: investment loss of $458.26 million) |
| **3.1 per cent** | Inflation-adjusted real return for 2016 (2015: (-) 1.7 per cent) |

[a] The financial statements for 2015 have been restated.

## A. Mandate, scope and methodology

1. The United Nations Joint Staff Pension Fund was established in 1949 by the General Assembly to provide retirement, death, disability and related benefits for the staff of the United Nations and other organizations admitted to the membership of the Fund. It is administered by the United Nations Joint Staff Pension Board and currently has 23 participating organizations, including the United Nations. The Fund is a multiple employer, defined benefit plan.

2. The Board of Auditors (the Board) has audited the financial statements of the United Nations Joint Staff Pension Fund (the Fund) and has reviewed its operations for the year ended 31 December 2016 in accordance with General Assembly resolutions 74 (I) of 1946 and 680 (VII) of 1952. The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the International Standards on Auditing. Those standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

3. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of the United Nations Joint Staff Pension Fund as at 31 December 2016 and its financial performance for the year then ended, in accordance with IPSAS and IAS 26. This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether income and expenses had been properly classified and recorded. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

4. In addition to the audit of the accounts and financial transactions, the Board reviewed the operations of the Fund under financial regulation 7.5 of the Financial Regulations and Rules of the United Nations. This allows the Board to make observations with respect to compliance on the financial procedures, the accounting system, internal financial controls and, in general, the administration and management of the Fund operations.

5. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations and conclusions were discussed with management, whose views have been appropriately reflected in the report.

## B. Findings and recommendations

### 1. Follow-up to previous recommendations

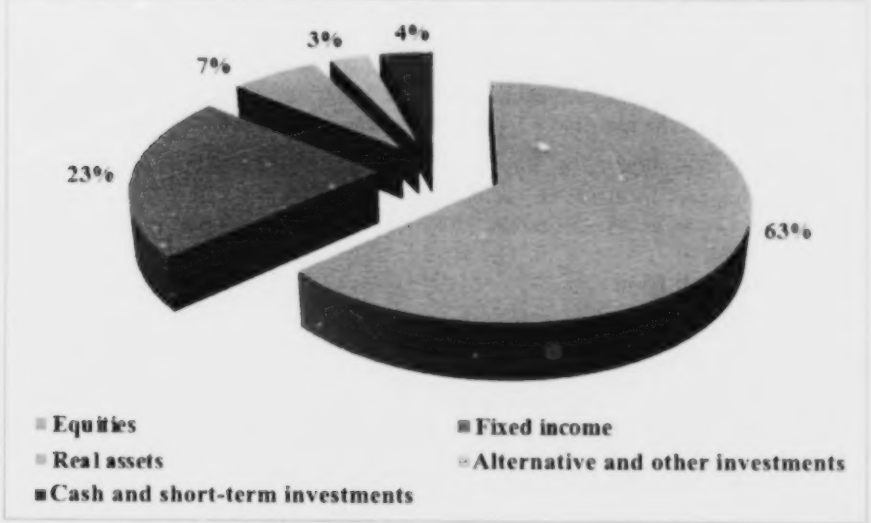
6. The Board followed up on the 26 outstanding recommendations up to the year ended 31 December 2015 and noted that only 5 (19 per cent; in 2015: 25 per cent) had been fully implemented and 21 (81 per cent; in 2015: 58 per cent) were under implementation. The details are provided in the annex.

7. There are important recommendations related to investment management and pension processing that are under implementation. The Board views the slow progress in the implementation of recommendations as an area of concern. The Fund noted the Board's concern for the slow progress on the implementation of recommendations. It stated that outstanding recommendations relate to issues that require major structural changes and the participation of external organizations, which are not under the control of the Fund.

### 2. Financial overview

8. As at 31 December 2016, the total assets of the Fund amounted to $54.73 billion (2015: $52.45 billion) and the total liabilities amounted to $237.64 million (2015: $320.21 million), making net assets available for benefits of $54.49 billion (2015: $52.13 billion). This represented an increase of $2.36 billion compared with a decrease of $753.46 million in 2015. The fair value of the total investment by the Fund was $54.51 billion, comprising $34.46 billion equities, $12.31 billion fixed income, $3.8 billion real assets, $1.66 billion alternative and other investments and $2.29 billion cash and short-term investments. The percentage share of each component in the total investment is shown in figure II.I below.

Figure II.I
**Percentage share of components in the total investment in the year 2016**

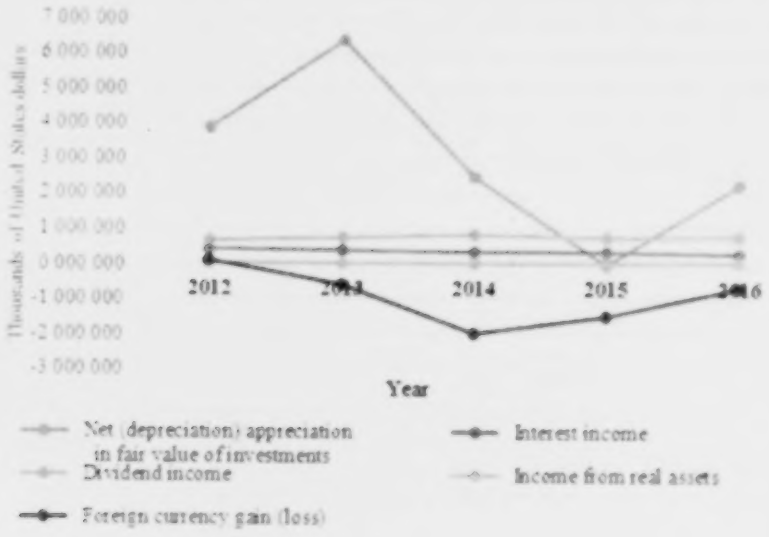



*Source*: Financial overview.

9. The total income,[1] including contributions to the Fund, in 2016 was $4.94 billion (2015: $1.81 billion), comprising investment income of $2.67 billion (2015: loss of $458.26 million), contributions of $2.27 billion (2015: $2.26 billion) and other income of $3.37 million (2015: $8.53 million). Expenses (comprising benefits payments, administrative expenses and other expenses) amounted to $2.59 billion (2015: $2.56 billion).

10. In the year 2016, the fair value of the investments appreciated by $2.26 billion (depreciation in 2015: $18.13 million) and there was a foreign currency loss of $679.88 million (2015: $1.49 billion). The different components of investment income are shown in figure II.II below.

Figure II.II
**Components of investment income, 2012-2016**



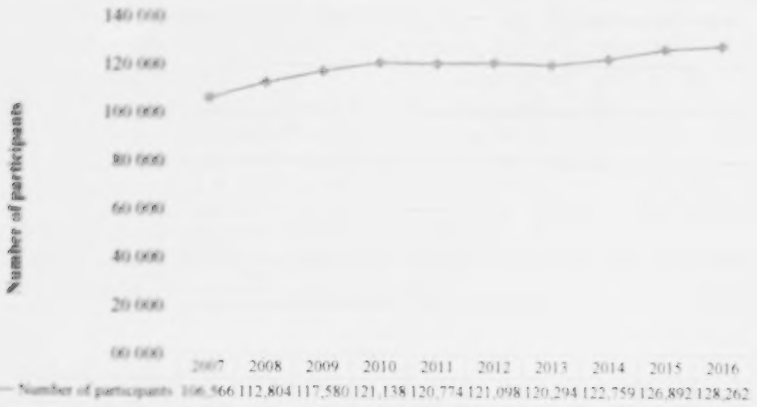

*Source*: United Nations Joint Staff Pension Fund financial statements.

11. The Fund return (nominal) for the year 2016 was at 5.19 per cent versus 6.90 per cent for the policy benchmark. The inflation-adjusted real return was 3.1 per cent against the required 3.5 per cent set as a long-term investment goal.

12. As at 31 December 2016, the Fund had 128,262 participants compared with 126,892 participants in 2015, an increase of about 1.08 per cent. The number of periodic benefits as at 31 December 2016 was 74,788 compared with 71,474 in 2015, an increase of 4.64 per cent. The number of participants over the past 10 years is shown in figure II.III below.

[1] Includes net appreciation in the fair value of investments.

Figure II.III
**Number of participants, 2007-2016**




*Source:* United Nations Joint Staff Pension Fund financial statements and annual report.

## 3. Financial statements

*Actuarial valuation*

13. Article 12 of the Regulations of the Fund provides that the Pension Board shall have an actuarial valuation made by the Fund at least once every three years. It also provides that the actuarial report shall state the assumptions on which calculations are based, describe the methods of valuation used and state the results. Currently, the Fund is carrying out an actuarial valuation every two years; the most recent such valuation was done as at 31 December 2015. It was extrapolated to reflect the position as at 31 December 2016.

14. The assumptions were recommended by the Committee of Actuaries and adopted by the Pension Board at its sixty-second session, held in July 2015. On the basis of these assumptions, changes required to be made on the basis of realities on the ground (an increase in the normal retirement age and an increase in eligibility for early retirement) and the employee data provided by the Fund, the actuary makes the calculations.

15. In its previous report (A/71/5/Add.16, chaps. I-II), the Board stated that the Fund had presented the 2015 financial statements on the basis of the actuarial report for 2013, which was the most recent report available at the time of preparation of the 2015 financial statements. The Board observed that the Fund should have normally obtained the actuarial report in time to be incorporated into the 2015 financial statements. The Board had then been unable to audit the results of the actuarial evaluation of 2015 owing to its late submission.

16. The Board reviewed the actuarial valuation during its audit of the 2016 financial statements. The Board observed anomalies in the data supplied to actuaries for making calculations. The number of participants shown in the financial statements for 2015 was 126,892, while in the actuarial report it was 114,375. The number of benefits of retired participants was 71,474 in the financial statements for 2015, while the corresponding figure in the actuarial report was 75,299.

17. The Fund accepted the Board's observations and decided to roll forward the previous actuarial valuation, made on the basis of the census data as at 31 December 2013, to the year ended 31 December 2016. The Fund contended that it would

provide a better estimate of the actuarial present value of the promised retirement benefit. The Board noted that 2016 would be the fourth year in which the actuarial valuation with data from 2013 was used.

18. The Board noted that the Fund needs to strengthen the internal control procedure and to ensure that accurate data are supplied to the actuary. The Board also observed that the actuarial present value of accumulated retirement plan benefits with pension adjustment, based on the census data as at 31 December 2013 rolled forward to 31 December 2016, was $53.72 billion instead of $51.63 billion as calculated by the actuary with inconsistent data. This has resulted in an increase in the valuation of the pension obligations by $2.1 billion.

19. **The Board recommends that the Fund strengthen its internal control procedure to ensure the accuracy of data before sending them for the actuarial valuation and carry out a fresh actuarial valuation as at 31 December 2017.**

20. The Fund accepted the recommendation.

*Benefits payable*

21. Pursuant to paragraph 22 (c) of IPSAS 19: Provisions, contingent liabilities and contingent assets, a provision should be recognized in the financial statement when a reliable estimate can be made of the amount of the obligation. The Fund pays different benefits to its participants in accordance with its Regulations. The Fund made provision for benefits payable in the financial statements for the participants who are eligible for entitlements during the year but could not receive them in the same financial year.

22. The Board noticed that the Fund had made provision for benefits payable amounting to $79.76 million for cases pertaining to 2016 and earlier periods but finalized during 2016. However, the Fund had excluded benefits payable of $10.57 million for which the calculation had already been made but that were not ready for release or awaiting audit by the Fund.

23. The Fund accepted the audit contention and carried out the necessary rectification in its financial statements.

*Prior period expenses*

24. The Fund recorded benefits payments amounting to $136.8 million pertaining to the cases processed in 2015 as an expense in 2016, which is not correct.

25. The Fund accepted the audit contention and made the correction in the financial statements.

*Withholding tax receivables*

26. The Fund is exempt from direct taxes on investment income from member countries, in accordance with Article 105 of the Charter of the United Nations and article II, section 7 (a), of the Convention on the Privileges and Immunities of the United Nations. The Fund invests in different kinds of securities in different countries. While receiving the dividend or interest from such investment, some of the countries withhold tax on such interest or dividend. The withholding taxes are divided into two categories: (a) direct tax withholdings; and (b) other tax withholdings, such as for transactions in depositary receipts, security transaction tax and stamp duty. The direct tax withholding is accounted as receivable every year. The other tax withholding, such as security transaction tax, stamp duty and tax related to depositary receipts is treated as expenses in the current year itself.

27. The Fund files tax returns in those countries to recover such receivables and a full or certain portion of the tax deducted is recovered every year. The remaining portion yet to be recovered is shown as withholding tax receivable. Total withheld tax accounted by the Fund until 31 December 2016 was $20.735 million, against which a provision for non-receivable tax was made for an amount of $10.234 million. In this connection, the Board carried out an analysis of the accounting of the withholding tax for the six-year period from 2011 to 2016 and observed that the Fund had not uniformly followed the accounting policy to account and provide for the withholding tax receivable from each country. For example, in the case of tax receivables from a country, provision for non-receivable tax was made for the full amount during the years 2011, 2012 and 2016, whereas during the years 2013 to 2015 no provision was made even though the receivables had aged more than two years. Similarly, in the case of another country where the withholding tax falls into category (b) and thus should be expensed, the Fund shows part of the tax as recoverable, on the advice of its consultant.

28. The Fund replied that it analyses each case from the point of tax recoverability, and the policy should not be construed as inconsistent accounting.

29. The Board noted that the accounting policy followed by the Fund for withholding tax was not fully disclosed in the notes to the financial statements. Furthermore, the Board noted that there was no consistency in the country-specific accounting of the tax withholding.

30. **The Board recommends that the Fund make an appropriate disclosure of the accounting treatment of the tax withholding in the notes to the financial statements.**

31. The Fund accepted the recommendation and agreed to review its policy and the disclosure of the accounting treatment of the tax withholding in the notes to the financial statements.

32. **The Board also recommends that the Fund prepare and follow a consistent accounting policy for creating provisions for the receivables for the tax withholdings.**

33. The Fund accepted the recommendation.

## 4. Investment management

34. The Investment Management Division is headed by the Representative of the Secretary-General for the investment of the assets of the Fund. The Board reviewed the mechanism in place for the formulation and implementation of the investment strategy, policies and decision-making processes being followed by the Fund in order to assess whether the Fund had appropriately addressed the associated risks, its performance against established benchmarks and the target rates of return required to meet expected pension obligations. The Board's findings on the functioning of the Investment Management Division are discussed in the paragraphs below.

*Risk management in the Investment Management Division*

35. The risk management manual sets forth the investment policy risk controls for the risk management programme. The risk management group is responsible for advising investment staff on risk management efforts and for selecting, maintaining and enhancing the risk management tools; reporting on investment risks and associated returns to the investment staff and the Investments Committee; and monitoring compliance with the policy, among other things.

36. In accordance with paragraph 58 of its investment policy statement for 2016, the Investment Management Division will determine and monitor risk budgets, the objective of which is to allocate risk among asset classes and portfolios, and conduct risk monitoring. The risk budget needs to be further broken down to sublevels of each asset class so as to ensure effective risk monitoring. The Board observed that in April 2017, the Fund subclassified the risk budget for fixed income at the currency and duration levels. However, for the equities, the risk budget has been allocated only on the basis of the equity portfolio by region, and no suballocation between countries or currencies has been made. The Board also observed that no risk budget has been prepared for real assets, alternative investments and cash and cash equivalents.

37. The Fund replied that at the total Fund level, tracking risk calculation includes the returns of all asset classes and the policy benchmark. However, the risk group is currently working towards deriving a risk budget at the individual asset class level for the real assets and alternative investments.

38. The Risk and Compliance Section is headed by the Deputy Director (Risk and Compliance) and is supported by two Risk Officers and two Compliance Officers. The Board observed that the post of Deputy Director had been vacant since October 2015. Additionally, both posts of Compliance Officer were vacant as at April 2017. The Fund informed the Board that the Director of the Investment Management Division is assuming the responsibility of the Deputy Director (Risk and Compliance) until the vacancy is filled. The Board noted that officiating a post such as Deputy Director (Risk and Compliance) for a long duration would affect the monitoring responsibility of the Director of the Investment Management Division. The vacancies for the post of Deputy Director (Risk and Compliance) and both posts of Compliance Officer would limit risk monitoring and active risk management.

39. In its previous report, the Board recommended that the Fund, while filling the vacancies at the senior levels at the earliest opportunity, draw up a succession plan that foresees and addresses the changes that will occur when senior positions become vacant. The Fund informed the Board that the Investment Management Division had developed and implemented a succession plan in December 2016.

40. The Board reviewed the succession plan and found it to be lacking in important details, such as identification of the critical posts, definite timelines for filling the vacancies and steps to be taken in case vacancies arise suddenly. The Board noted that since the Fund was taking an inordinate amount of time to fill the vacancies, it should analyse the reasons for the bottlenecks and address them promptly. Long-pending vacancies at the senior level have an adverse impact on the Fund's performance and its investment strategy, leading to the centralization of responsibility, overburdening existing Professional staff and compromising the segregation of duties, leading to inefficiencies.

41. **The Board recommends that the Fund prepare a detailed risk budget for all categories of the assets.**

42. The Fund partially accepted the recommendation to establish a detailed risk budget for selected assets. It stated that the risk budgets might be established for public asset classes, such as equities and fixed income, but this might not be feasible for other categories of assets owing to the nature of the assets. The Fund will establish detailed risk budgets for public asset classes. More detailed risk limits were adopted early in 2017 for the internally managed fixed income portfolio, and active limits for the global equity portfolio are being developed. The Investment Management Division will review and consider the recommendation as it relates to other asset classes, pending the outcome of further research and analysis.

43. **The Board reiterates its earlier recommendation that the Fund fill the vacancies at the Professional and decision-making levels and prepare a comprehensive succession plan to effectively deal with the changes that will occur when senior positions become vacant.**

44. The Fund accepted the recommendation.

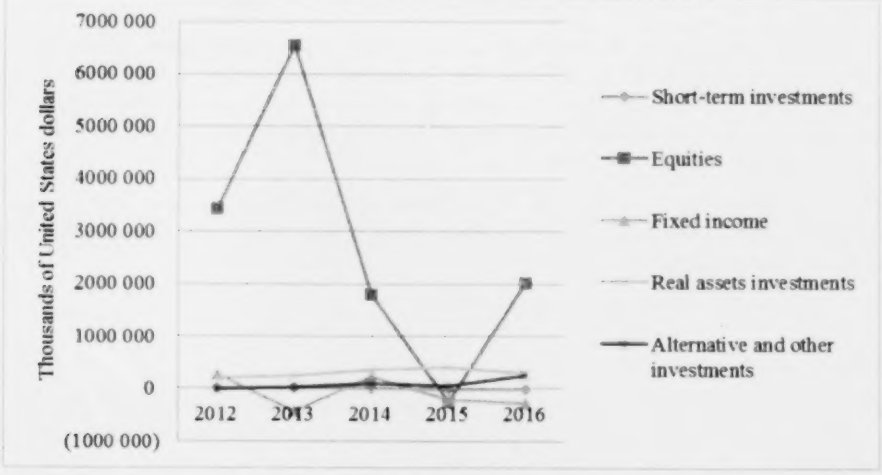
*Return on investment*

45. In accordance with paragraph 10 of the investment policy statement for 2016, the "Fund's Investment Goal" is to earn the highest possible investment return consistent with the Fund's risk appetite so as to deliver an investment return that at least meets over the long-term the Fund's assumed real rate of return objective. As indicated in the policy statement, the assumed real rate of return for the Fund is currently 3.5 per cent. The aim of an active investment manager is to exceed the policy benchmarks through active portfolio management using tactical allocation and stock and instrument selection.

46. As at 31 December 2016, the Fund had a total investment income of $2.67 billion (2015: investment loss of $458.26 million) and total assets under investment of $54.51 billion (2015: $52.19 billion). The reported nominal return on investments for 2016 was 5.19 per cent (2015: (-) 1.0 per cent) and the adjusted real rate of return was 3.1 per cent (2015: (-) 1.7 per cent). The Board noted that the Fund had improved its performance in 2016 compared with 2015, although the nominal return was still less than the policy benchmark of 6.9 per cent by 1.71 per cent; the real rate of return was also below the expected long-term real rate of return of 3.5 per cent by 0.4 per cent.

47. Although the total fair value of financial assets has appreciated by $2.26 billion, the fair value of fixed income has depreciated by $284.68 million (2015: depreciation of $205.02 million) and the fair value of short-term investments has depreciated by $4.01 million (2015: depreciation of $7.18 million). In addition, the Fund has suffered foreign currency losses of $679.88 million (2015: loss of $1,487.4 million). The change in the fair value of assets (designated at fair value) is depicted in figure II.IV below.

Figure II.IV
**Change in fair value of assets (designated at fair value) from 2012 to 2016**




*Source*: United Nations Joint Staff Pension Fund financial statements.

48. The Board observed that the performance of the Fund over periods of one, three and seven years was lower than the benchmark. The Fund replied that the underperformance of the Fund for calendar year 2016 had an impact on the long-term performance numbers. It further stated that it had outperformed the policy benchmark in 12 of the past 22 years. It had also outperformed its 3.5 per cent long-term real rate of return objective in 16 of the past 22 years. The Board noted that the Fund has not been able to achieve the 3.5 per cent long-term real rate of return in the three years since 2014.

49. The Board observed that the Fund needs to review its internal investment and risk processes and procedures so as to outperform the benchmarks for each asset class and achieve a real rate of return that is at least the targeted long-term real rate of return of 3.5 per cent. This would ensure that the Fund would be in a position to meet its long-term liability of payment of the retirement benefit to its participants.

50. **The Board recommends that the Fund review its internal investment and risk processes and procedures so as to outperform the benchmarks and achieve at least the targeted long-term real rate of return of 3.5 per cent.**

51. The Fund accepted the recommendation and stated that the Investment Management Division is in the process of reviewing its internal investment and risk processes and procedures so as to meet or exceed the benchmarks and the targeted long-term real rate of return of 3.5 per cent.

*Fixed income performance*

52. As at 31 December 2016, fixed income comprised 22.88 per cent ($12.31 billion) of the total asset allocation. Fixed income had a negative return of 1.36 per cent during 2016, which is 3.45 per cent below the benchmark of 2.09 per cent. Furthermore, fixed income has contributed the maximum ((-) 0.80 per cent) to the below-benchmark performance of the Fund. The foreign currency loss on fixed income during 2016 was $210.52 million.

53. The Board observed that 48.44 per cent of the fixed income investment has been in currencies other than United States dollars. Although strategic asset allocation provides for allocation in fixed income as an asset class, further suballocation between regions, countries and currencies was the decision of the Investment Management Division management. The Board also observed that since fixed income has returned 3.45 per cent less than the benchmark, the investment strategy pursued during 2016 has not produced the desired results.

54. The Board further observed that the fair value of the fixed income instruments has depreciated by $284.68 million (2015: depreciation of $205.02 million). The Fund informed the Board that the change in market value of the fixed income portfolio was due to an unrealized loss of $343.81 million and a realized gain of $59.13 million.

55. **The Board recommends that the Fund continuously monitor and review its fixed income strategy so as to ensure that it will meet and perform better than the benchmark.**

56. The Fund accepted the recommendation.

*Foreign currency losses*

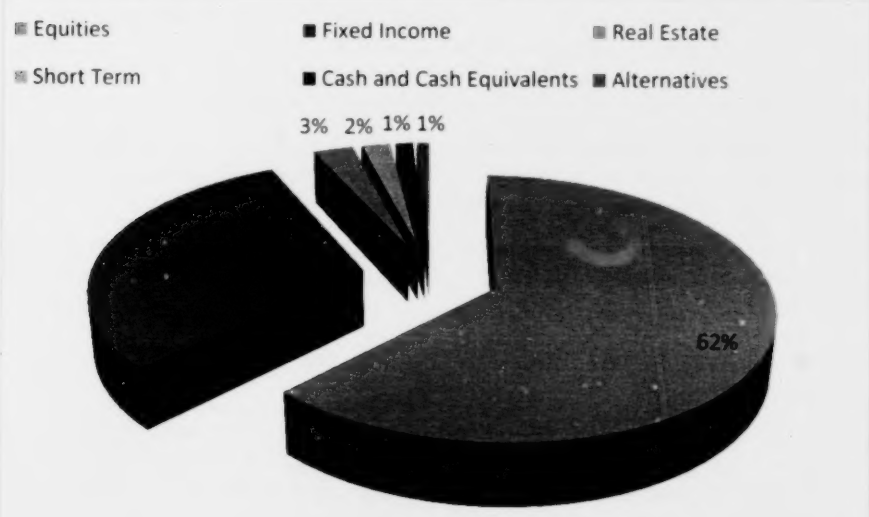
57. Open exposure to foreign exchange volatility brings with it the risk of reduced returns or even capital erosion. This is evident from the investment returns for 2015 and 2016.

58. The Fund suffered foreign currency losses of $679.9 million in 2016 (2015: $1,487.4 million). Out of the foreign currency losses of $679.9 million, the Investment Management Division has suffered a loss of $683.35 million (2015: $1,489.15 million), comprising a realized loss of $783.97 million and an unrealized gain of $100.62 million. The Fund secretariat experienced a foreign currency gain of $3.47 million, comprising a realized gain of $7.55 million and an unrealized loss of $4.08 million. Although the total foreign currency losses have reduced in 2016 compared with 2015, the realized foreign currency losses have increased, from $751.4 million in 2015 to $776.4 million in 2016.

59. The Board observed that the Fund has been experiencing foreign currency losses since 2013. Since 2013, the Fund has suffered a total foreign currency loss of $4.68 billion.[2] The Board also noted that the foreign currency losses were in all asset classes during 2016. Equity, which comprises 63.20 per cent of the total portfolio, contributed $425.87 million (62.32 per cent); fixed income, which comprises 22.88 per cent, contributed $210.52 million (30.81 per cent); real assets, which comprise 7.11 per cent, contributed $19.21 million (2.81 per cent); alternative investments, which comprise 2.94 per cent, contributed $5.96 million (0.87 per cent); and cash and short-term, which comprise 3.87 per cent, contributed $21.84 million (3.19 per cent) to the foreign currency losses. Figure II.V represents the share of each investment class in the foreign currency losses for the year 2016.

Figure II.V

**Share of each investment class in the foreign currency losses for the year 2016**




*Source*: Information from the United Nations Joint Staff Pension Fund.

60. In its previous audits, the Board raised concern over the foreign currency losses affecting Fund's performance. In the annex, the Fund intimated that procurement was under way to hire an expert to conduct a formal currency study, which would include a review of foreign currency exposure and related tools. The Fund started the process of procurement in May 2017.

[2] 2013: $558.92 million; 2014: $1,955.14 million; 2015: -$1,487.4 million; 2016: $679.9 million.

61. **The Board recommends that the Fund expedite the currency study so as to further strengthen foreign currency management and control and reduce risks by employing suitable strategies.**

62. The Fund accepted the recommendation.

*Management of external fund managers*

63. The Fund has contracted the services of four external fund managers for investing in small cap equity of $2.55 billion in different geographical regions, that is, North America, Europe and Asia. The Fund has paid $10.1 million as a management fee to the external fund managers.

64. The United Nations entered into agreements on behalf of the Fund with external fund managers for managing the small cap investment from 2008 to 2010. In accordance with the original terms, the contracts were valid for a period of three years from the effective date and were subject to two further extensions of one year each.

65. In 2011, the Fund decided to treat the selection of external managers as an investment decision rather than a procurement exercise. In its previous report, the Board recommended that the Fund finalize and publish its selection and evaluation criteria for external funds and discretionary investment managers. The Board noted that the Representative of the Secretary-General approved the policy for external fund managers in February 2017.

66. The Board observed that the above-mentioned policy did not prescribe any format or criteria for conducting an evaluation of the external fund managers. As a result, managers were filling in the performance evaluation report at their discretion. The Board further noted that the policy is silent on the duration of the contract, which should be an essential requirement for soliciting the bids.

67. **The Board recommends that the Fund incorporate provisions for the duration of the contract in the policy and formalize the evaluation method before awarding or renewing the contract of the fund managers.**

68. The Fund accepted the recommendation and stated that the new policy on external managers would be reviewed and updated in order to address the Board's recommendation.

*Business continuity and disaster recovery planning in the Investment Management Division*

69. Business continuity and disaster recovery planning are critical components of emergency management in an organization. A business continuity and disaster recovery plan is a documented, structured approach with instructions for responding to unplanned incidents.

70. The Board noticed that a business continuity and disaster recovery plan for the Investment Management Division was formulated in September 2011, revised in October 2014 and updated again in March 2016. The Division is currently in the process of updating the plan for 2017.

71. The Board observed that the disaster recovery protocols were enabled only for services related to portfolio management, trade execution, financial analytical systems, accounting, trade matching and settlement, and risk and compliance. The protocol for services related to information technology/operations was not enabled.

72. The Board also noticed that Investment Management Division had not carried out a business impact analysis[3] study. The Board further observed that the business continuity and disaster recovery plan does not define the recovery time objectives[4] for all critical applications. The business continuity and disaster recovery policy of the Division states that within the Division, the recovery time objectives are in the process of being defined, which will determine the disaster recovery technologies best suited to the situation. Currently, it is set on a "best efforts" basis.

73. The Board enquired whether the Investment Management Division keeps a backup of the trade and related data, since the Division is the owner of the data. The Division informed the Board that it will procure a data warehouse solution in 2018 for that purpose.

74. The Board noticed that the Investment Management Division has not entered into a service level agreement with the provider of the Asset and Investment Manager system (security trading software). In its previous report, the Board recommended that the Fund enter into a service level agreement defining the respective roles and responsibilities and service level benchmarks and that it develop a mechanism to secure compliance with the agreement. The Division replied that it plans to have a service level agreement by the third quarter of 2017.

75. **The Board recommends that the Fund update the business continuity and disaster recovery plan in the Investment Management Division by including all the critical applications, determine recovery time objectives for all critical applications and carry out a business impact analysis study in view of the criticality of its operations.**

76. The Fund accepted the recommendations.

*Information technology security and risk management in the Investment Management Division*

77. The information technology system plays a critical role in the functioning of the Investment Management Division. Hence, it is very critical for the Division to have an appropriate information technology security and risk management policy. The Board noticed that the information technology security policies in the Division are spread across various documents (information system security policies, the Division's mobile device policy, the password policy and the vulnerability management policy). For effective control over the implementation of the policy, it is critical to have a single integrated policy for information technology security and risk management. Furthermore, the policy should clearly separate "governance" (oversight and strategic decisions relating to information security) from "management and operations" (routine decisions for daily security works).

78. The Board also noticed that the Investment Management Division does not have a policy on the following critical areas of information technology operation:

(a) Data classification levels for confidentiality;

(b) Email and Internet usage policy;

(c) Social media usage policy;

[3] Any organization needs to conduct a risk-based analysis to identify and document critical business processes and functions. The business impact analysis helps to determine and evaluate the potential effects of an interruption to critical business operations as a result of a disaster, accident or emergency.

[4] The recovery time objective is the maximum tolerable length of time that a computer, system, network or application can be down after a failure or disaster occurs.

(d) Risk management process (risk identification, assessment, prioritization, mitigation and control).

79. **The Board recommends that the Fund prepare a comprehensive security policy for the Investment Management Division that should be circulated widely among the management and the staff, and establish a mechanism to ensure compliance.**

80. The Fund accepted the recommendation.

## 5. Benefits payment management

*Benefits processing*

81. The Fund provides retirement, death, disability and related benefits to the participating staff members of the United Nations and the other member organizations.

82. United Nations system organizations are required to send two mandatory documents, the separation personnel action and the separation notification, to the Fund to process the entitlement claims in case of separation or death in service of the participants. Other specialized agencies are required to send only one separation document to the Fund, the separation notification. The payment instructions are submitted by the participants. The Fund informed the Board that for United Nations system organizations, it retrieves the separation personnel action from the human resources interface, so it only requires the submission of the original separation notification from the member organization.

*Implementation of the Integrated Pension Administration System*

83. The Integrated Pension Administration System was developed and implemented in 2015 as an integrated enterprise pension administration system to process various categories of benefits due to the participants separating from service and their dependants. It was to function as a single unified system to replace all the legacy systems deployed by the Fund. The Board examined the functioning of the System. Issues noted during the examination are discussed in the paragraphs below.

84. *Automation of processing of the benefits*. As reported in the high-level business case for the Integrated Pension Administration System, the objective of developing a new target operating model was to re-engineer the existing day-to-day processes so that they are more consistent and standardized wherever possible, are better supported by technology and increase the ability of work to pass through the operation with little, if any, manual intervention.

85. The Fund demonstrated the processing of a case through the Integrated Pension Administration System. During the process, the Board found that the System requires human intervention at every stage, starting with the Records Management and Distribution Unit, which scans the documents received from the participants and/or member organizations and opens the workflow in the system. All the workflows are queued with the supervisors of the Pension Entitlements Section, who have to allocate them to the calculators. The workflow is then queued with the assigned calculator. Before this stage, the category of the case is not reflected in the workflow. The calculator then starts the processing of the case by entering the details of the participant available in the separation notification received from the employing organization and from the payment instructions received from the separating participant. Once the calculator has completed the calculation part, the workflow is assigned to the auditor, who checks the data entered or updated by the calculator. From the auditor, the workflow moves to the releaser, to the approver and to the cashier unit in sequential order. All of these steps require regular human

intervention. Regular manual interventions make the exercise time consuming, error-prone and slow.

86. *Input controls*. As informed by the Fund, the system has a mechanism to categorize different types of benefits. The category in which a case falls, that is, a death or disability case, an early retirement case or a deferred benefit case is entered in the system at the stage of calculation. In addition, there is a "comments" field to record the reason for delay in the processing of a case. However, this input field is not standardized, which makes it difficult to ascertain the reasons for pending cases.

87. *Employer self-service*. In the high-level business case, it was stated that the Integrated Pension Administration project presented an excellent fit with the Fund's strategies, since the project entailed a systematic optimization of the existing processes; an easy and efficient online connection to member organizations' information systems; a more open pension information system operating as a fully integrated component of a vast global web-based network; and a more modern information technology platform.

88. The Board observed that the human resources and financial interfaces existing before Integrated Pension Administration System have only been reconfigured to connect member organizations with the System. Three member organizations[5] have yet to be migrated to the common human resources interface. At the time of audit, the member organizations can upload the after-service health insurance[6] data files to the employer self-service module for submission to the Fund and view the information regarding employees. However, for any change or amendment to the information posted in the employer self-service module, the organization has to write to the Fund separately. Moreover, the separation notification, which is a crucial document for benefits processing, cannot be submitted through the employer self-service module. The Fund awaits the hard copies of the separation notification from the member organization on the separation of the participants. Only after the receipt of the hard copy of the separation notification does the calculator manually update the demographic details and other information pertaining to the participants. This process, apart from being time-consuming, is prone to data entry errors. The Fund stated that it currently operates under the existing rules, requiring a signed hard-copy "separation notification" document. Under normal circumstances, most of the data included on the separation notification have already been captured electronically through the human resources interface and contributions interface, leaving the very latest to be entered manually. The Fund would explore the possibility of receiving all of the separation data electronically.

89. *Member self-service*. The high-level business case for the Integrated Pension Administration System envisaged an enhanced experience to participants, retirees and beneficiaries through improved service standards. The system was to be accessed by the participants, pensioners and beneficiaries to check their account with the Fund and perform more processes themselves. However, at present, the member self-service functionality allows pensioners, participants and beneficiaries to only view and print certain documents and forms. The forms cannot be submitted through the member self-service module, which therefore limits its utility to the beneficiaries. The Fund stated that additional functionalities are expected to be implemented in the near future.

[5] The United Nations Development Programme, the Office of the United Nations High Commissioner for Refugees and the World Intellectual Property Organization.

[6] The member organizations are required to send after-service health insurance data to the Fund in respect of retirees so that the Fund can deduct the amount due from pensioners from their pension and remit that amount to the member organization.

90. *Migration of legacy data*. In its previous report, the Board reported that the Fund could not achieve the complete migration of data from the legacy system to the Integrated Pension Administration System. In response to a query by the Board on having a policy of archiving data in the System, the Fund informed the Board that it retains records for the complete employment history of its participants and beneficiaries because historical data is often required for processing benefits. In the light of these operational needs and the long-term horizon of pension benefits, the Fund's policy is to keep all records available. Thus, the importance of legacy data is clearly established. The Board therefore views the migration of complete data to the Integrated Pension Administration System as critical.

91. *Management information system reports*. As indicated in the target operating model presented in the high-level business case, the Integrated Pension Administration System was expected to enhance the availability and completeness of the existing management information to facilitate better decision-making and strategic planning. It was noticed that although the System has different views that can be explored and printed to track the status of open workflows, it does not have the facility of generating any management information system report containing the status of different categories of cases at a glance for being monitored or tracked by senior management. The Board noted that the Fund has developed a business intelligence module, which was officially deployed on 12 June 2017.

92. **The Board recommends that the Fund: (a) explore the possibility of further automating various steps in benefits processing; (b) build input controls to ensure standardized information in the Integrated Pension Administration System; (c) enhance the functionalities of the member self-service and employer self-service modules; and (d) resolve data issues resulting from the migration to the Integrated Pension Administration System.**

93. The Fund accepted the recommendation.

*Time taken to process the benefits in the Integrated Pension Administration System*

94. The Board analysed the data on benefits processing provided by the Fund secretariat. It was found that during 2016, 10,291 cases were processed for benefits payment. Table II.1 shows the time taken to process the cases after the receipt of documents. In accordance with the United Nations Joint Staff Pension Fund strategic framework for the period 2016-2017, the benchmark[7] set by the Fund for the processing of benefits is 15 business days.

Table II.1
**Time taken for the processing of benefits**

| *Time taken for processing benefits* | *Number of cases processed* | *Percentage of total cases processed* |
|---|---|---|
| Less than 15 business days | 2 780 | 27.01 |
| 15 business days-1 month | 614 | 5.96 |
| 1-2 months | 2 121 | 20.61 |
| 2-3 months | 1 670 | 16.23 |
| 3-6 months | 2 160 | 20.99 |

[7] See United Nations Joint Staff Pension Fund strategic framework for the period 2016-2017, sect. IV.A, component 2, indicator of achievement 1.1: "Increased percentage of withdrawal settlements, retirement benefits and other benefits processed within 15 business days".

| *Time taken for processing benefits* | *Number of cases processed* | *Percentage of total cases processed* |
|---|---|---|
| 6 months-1 year | 613 | 5.96 |
| More than 1 year | 333 | 3.24 |
| **Total** | **10 291** | **100** |

*Source*: Data furnished by the Fund.

95. However, as seen from the information available on the Fund's business intelligence dashboard, the median time for processing an initial separation during 2016 was 37.8 days against a benchmark of 15 days set by the Fund secretariat. Furthermore, the Fund informed the Board that in 2016, the median time to process a benefit was reduced from 56 days in January 2016 to 15 days in December 2016. The Board found that the methodology adopted by the Fund for the calculation of the median time covered only initial separation cases and excluded cases with extreme delays, child benefits, death after service, recalculation and cases with issues. Thus, the processing time depicted by the Fund is not completely representative of the actual time taken by the Fund in processing all types of cases.

96. The Fund stated that over the past year, it had achieved significant progress in the processing of benefit entitlements, both in terms of monthly processing levels and timeliness. In 2016, the number of benefits processed increased by 53.32 per cent, from 8,037 benefits awarded in 2015 to 12,322 benefits awarded in 2016. The Fund attributed the delay in processing 333 cases that took more than one year to process to the data issues during system migration and not to delays in benefits processing.

97. The Board's calculation of time taken for benefits processing was based on all cases processed in 2016, without any exclusion. It is evident from table II.1 that 27 per cent of cases could be processed within the benchmark of 15 business days.

*Cases outstanding for processing*

98. The Board noted that the number of cases outstanding for processing as at 13 April 2017 stood at 5,383, of which 3,148 cases were outstanding as at 31 December 2016. Furthermore, of the 3,148 outstanding cases, all of the documents were received in 1,819 cases as at 31 December 2016. The ageing analysis of the cases outstanding as at 31 December 2016 with respect to the date of separation and to the date of receipt of all documents is shown in table II.2.

Table II.2
**Ageing analysis of outstanding cases with respect to the date of separation and date of receipt of all documents**

| | *Total outstanding separations from date of separation* | | *Outstanding cases from date of receipt of all separation documents* | |
|---|---|---|---|---|
| *Period outstanding* | *Number of cases* | *Percentage of total outstanding* | *Number of cases* | *Percentage of total outstanding* |
| Less than 1 year | 1 301 | 41.33 | 1 164 | 63.99 |
| 1-2 years | 900 | 28.59 | 534 | 29.36 |
| 2-3 years | 417 | 13.24 | 81 | 4.45 |
| 3-4 years | 242 | 7.69 | 33 | 1.81 |

| | Total outstanding separations from date of separation | | Outstanding cases from date of receipt of all separation documents | |
|---|---|---|---|---|
| Period outstanding | Number of cases | Percentage of total outstanding | Number of cases | Percentage of total outstanding |
| 4-5 years | 135 | 4.29 | 5 | 0.28 |
| More than 5 years | 153 | 4.86 | 2 | 0.11 |
| **Total** | **3 148** | **100** | **1 819** | **100** |

*Source*: Analysis of data furnished by the Fund.

99. In the above analysis, there were 153 separations outstanding for more than five years. The Fund informed the Board that most of these cases had issues and could not be processed or they were old cases with data issues. Furthermore, in respect of 655 cases in which the separation had taken place more than one year ago, the processing of the claims had not been completed despite the receipt of all of the documents.

100. The Board, however, could not capture the details about the category of cases (death, separation or deferred benefit) in table II.2 as the same information was neither available in the data provided to the Board nor was it readily available in the Integrate Pension Administration System. After a requisition by the Board of the details of categories of such cases, the Fund provided the details on 1 June 2017, the penultimate day of the field audit,[6] and the Fund followed it up with further information on 21 June and 7 July 2017. It was observed by the Board that in the information provided, the Fund split the cases into actionable and non-actionable in accordance with the categorization based on articles. In the category-wise information provided, the Fund reported on 7 July 2017 that the total of 1,819 outstanding cases shown in table II.2 included 1,551 non-actionable cases and 268 actionable cases for processing. Owing to the late submission of the information on categories, the Board could not verify the factual correctness of the details provided.

101. **The Board recommends that the Fund: (a) set a definite timeline to process all outstanding cases in which all documents have been received; and (b) prescribe a time frame for processing each type of entitlement or benefit.**

102. The Fund accepted the recommendation.

*Delay in the submission of separation documents by member organizations*

103. The Board noted that out of 10,291 cases processed during 2016 and 5,383 outstanding separations as at 13 April 2017, data was incomplete in 538 processed cases and 2,104 outstanding cases, respectively. Therefore, those cases were excluded from the Board's analysis. From an analysis of the remaining 13,032 cases, it was noticed that there were delays in the receipt of the separation notification from the employing organizations, which delayed the processing of benefits to the separating members. An analysis of the time taken by the employing organizations to send the required documents after separation or the death of the participants is shown in table II.3.

[6] The field audit was conducted from 24 April to 2 June 2017.

Table II.3
**Time lag between date of separation and receipt of separation notification in cases processed during 2016 and outstanding as at 13 April 2017**

| *Time lag between date of separation and receipt of separation notification* | *Cases processed during 2016* | | *Cases outstanding as at 13 April 2017* | |
|---|---|---|---|---|
| | *Number of cases* | *Percentage of total* | *Number of cases* | *Percentage of total* |
| Less than 1 month | 1 731 | 17.75 | 448 | 13.66 |
| 1-2 months | 1 626 | 16.67 | 631 | 19.24 |
| 2-6 months | 3 664 | 37.57 | 1 249 | 38.09 |
| 6 months-1 year | 1 733 | 17.77 | 480 | 14.64 |
| 1-5 years | 943 | 9.67 | 420 | 12.81 |
| More than 5 years | 56 | 0.57 | 51 | 1.56 |
| Subtotal | 9 753 | 100 | 3 279 | 100 |
| Data incomplete | 538 | | 2 104 | |
| **Total** | **10 291** | | **5 383** | |

*Source*: Analysis of data furnished by the Fund.

104. From table II.3, it emerged that in 82.25 per cent of processed cases and 86.34 per cent of cases outstanding, the separation notification was received with a delay of more than one month. In more than 10 per cent of the cases processed and 14 per cent of the cases outstanding, the separation notification was received from the member organizations more than one year after the date of separation.

105. **The Board recommends that the member organizations create pension focal points to facilitate the expeditious processing of the retirement benefit cases.**

106. **The Board recommends that the member organizations identify all cases due for separation in the next six months before the date of separation, send updated demographic details to the Fund and reconcile all differences in contributions.**

*Client grievance redressal system*

107. Benefits processing starts after receipt of the separation notification from the employing organization and payment instructions from the participant. Since the two forms (payment instruction and separation notification) come from two different sources, a delay in the receipt of any one form would result in a delay in processing the case. Moreover, there are many cases in which the periodic benefits are suspended for non-receipt of the signed certificates of entitlement. As the clientele of the Fund includes the active participants as well as the separated staff members, their families and dependants of deceased members, the Fund receives many queries and follow-up from the participants and beneficiaries on a range of issues concerning their entitlements.

108. Given the large base of clients serviced by the Fund as well as the criticality of the role of the Fund in the livelihoods of beneficiaries, the Fund requires a well-defined and active grievance redressal mechanism. The Board noted that, in recognition of the need for active client management, the Fund had carried out the following initiatives during 2016:

(a) A call centre began operations from October 2016;

(b) The Fund's liaison presence in East Africa was established;

(c) A member self-service section was provided on the website;

(d) A new website was deployed to provide better services.

109. The Fund received a total of 115,596 queries at its New York and Geneva offices during 2016. A breakdown of those queries is given in table II.4.

Table II.4
**Types of queries received in 2016**

| *Mode of receipt* | *New York office* | *Geneva office* |
|---|---|---|
| Telephone call | 22 479[a] | 14 061 |
| Walk-in | 5 097 | 2 498 |
| E-mail | 42 838 | 28 623 |
| **Total** | **70 414** | **45 182** |

*Source*: Data from the Fund.

[a] New York telephone calls include 21,300 calls received from January to October 2016 (prior to the pilot call centre) and 1,179 calls received by the pilot call centre, which began operation in November 2016.

110. After an enquiry by the Board regarding the redressal of these queries, the Fund stated that it opens a workflow in the Integrated Pension Administration System upon receipt of an actionable query. As indicated in the data provided by the Fund, during the year 2016, 18,629 workflows were opened, of which 12,944 were closed, leaving 5,685 workflows open at the end of 2016. In addition, the Fund responded to 3,487 emails received directly in the Fund inbox without opening any workflow. The Fund did not have details of all the queries it received or specific action taken on them.

111. The Board noticed that there is no centralized system to register a query by giving it a unique serially controlled tracking number. It is therefore not possible to monitor the action taken or the resolution of the issue raised in the query. Also, the stage at which the query is pending remains unclear to the client and to management at any given point in time. Furthermore, there is no system of providing periodic updates to the clients about the status of the queries raised by them. The Board also noted that in the absence of a documented client grievance redressal mechanism, there is no guidance on segregation, prioritization or a timeline for the disposal of queries. A general benchmark for processing enquiries has been fixed at 15 days. There are separate reports, but there is no centralized reporting system in place with respect to monitoring the status of queries. There is no system of obtaining the feedback from the clients who had registered their queries, which is a very basic requirement of any organization providing client service.

112. **The Board recommends that the Fund document a client grievance redressal mechanism and include procedures for indexing, segregating, prioritizing and monitoring the queries.**

113. **The Board also recommends that the Fund devise and implement a structured feedback mechanism to receive feedback from clients.**

114. The Fund accepted the recommendations.

*Certificate of entitlement*

115. A certificate of entitlement is a form used by the Fund to verify the continuing eligibility of retirees and beneficiaries for the benefits they are receiving. However,

the procedure followed is cumbersome, both for the Fund and for the beneficiary, considering the fact that beneficiaries are located all around the world.

116. As a part of the annual certificate of entitlement exercise, the Fund sends a barcoded (so it could be tracked when returned) certificate of entitlement form to each beneficiary at the address available in its records. Benefits get suspended as a result of the non-receipt of an ink-signed certificate of entitlement form, which may occur owing to a change in address of the beneficiary or a failure of the postal service. Non-matching signatures can also be a reason for suspension of the benefits.

117. The Board noted that as of May 2017, a total of 2,534 benefits were suspended for non-receipt of the certificate of entitlement. Of those, 789 benefits were under suspension for a period of more than one year. The suspension of benefits may cause distress to the beneficiaries, as for most of them the benefits received may be the sole source of income. Moreover, as indicated by the Fund, more than two thirds of the benefits suspended are later reinstated, which shows that in many cases the benefits are suspended for reasons other than loss of entitlement. Therefore, the process for obtaining the certificate of entitlement needs to be reviewed.

118. **The Board recommends that the Fund review: (a) the process of obtaining the certificate of entitlement; and (b) the suspended cases that are on hold for a longer period.**

119. The Fund accepted the recommendation.

*Participant reconciliation exceptions*

120. The contributions from the participants to the Fund, along with employers' contributions are received on a monthly basis as a lump sum amount for all the participants working in a member organization. The detailed schedules containing details of the deductions made from the salary of each participant and the employer's contributions are received by the first quarter of the following year.

121. Upon receipt of the detailed schedules, the reconciliation exercise is undertaken to reconcile the differences between the estimates of the expected contributions and the contributions actually received. After reconciliation, the difference between the "estimation of expected contributions" and the "actual receipts" is recorded as receivable or payable from/to the member organization.

122. The Board observed that no participant reconciliation exception reports had been prepared for the years 2015 or 2016. The Fund informed the Board that the development of the participant reconciliation exceptions programme in the Integrated Pension Administration System has been scheduled to take place in the year 2017. The Fund is expected to provide the participant reconciliation exceptions reports to the member organizations by the end of June 2017 for the contributions reported to 2016. In the absence of any exercise of reconciliation of the exceptions during the years 2015 and 2016, it is anticipated that the number and amounts involved in the participant reconciliation exceptions for two years will get added to the earlier unreconciled figure of $13.83 million for the year 2014. The unresolved participant reconciliation exceptions may delay the processing of the benefits for separating members.

123. The Fund stated that, in accordance with the Regulations of the Fund and the terms of reference of the staff pension committees and their secretaries, "member organizations own their payroll processes as well as the data relating to human resources and finance". Therefore, it is the responsibility of the member organizations to provide accurate, complete and timely reporting of the participation contributions and separation of the staff members. It is also the responsibility of

member organizations to resolve the discrepancies identified in the participant reconciliation exceptions in a timely manner. Furthermore, the Fund has planned for the implementation of the monthly contributions process, gradually starting with a pilot with a smaller organization in 2017, followed by a larger one the following year.

124. **The Board recommends that the Fund establish a system for receiving the schedules of contributions on a monthly basis along with a list of participants from the member organizations to eliminate the generation of participant reconciliation exceptions.**

125. The Fund accepted the recommendation.

*Non-reconciliation of the contributions receivable balance with member organizations*

126. At the end of every year, member organizations send their pension contributions data to the Fund in a format called the "year-end schedule", containing details of the pensionable remuneration rates, leave without pay periods and contributions of employees. The financial statements of the Fund are finalized by using the data in the year-end schedules after making suitable adjustments to the data on the basis of the calculations made by the Fund in accordance with the Regulations of the Fund. The reconciliation of data sent by the member organizations with the Fund balance is carried out later, and annual contribution reconciliation letters are sent to the member organizations stating the discrepancies to be corrected in the next year's contributions. As observed in the case of the United Nations, there was an overpayment of $17 million to the Fund, as indicated in the annual reconciliation letter furnished by the Fund for the year 2015; however, the United Nations did not consider the reconciled figure mentioned by the Fund while furnishing the details for 2016. The details for 2016 submitted by the United Nations showed an overpayment of $1.02 million to the Fund, while the Fund accounted an overpayment of $18.28 million in its financial statements. Similar discrepancies were noticed in the cases of other member organizations.

127. In reply, the Fund stated that the United Nations pays pension contributions on behalf of many sub-entities. The reconciliation of pension contributions paid by the United Nations is therefore time-consuming. In the case of differences in the balances of other member organizations, the Fund replied that it would perform a reconciliation of organization-level contributions for all pension reporting entities, which would take a few months to complete. The Board noted that the reconciliation is very important to ensure that the balances in the financial statements relating to the contribution by the member organizations reflects the correct position.

128. **The Board recommends that the Fund carry out the reconciliation of the contribution by the member organizations at regular intervals.**

129. The Fund accepted the recommendation.

## C. Disclosures by management

### 1. Write-off of losses of cash, receivables and property

130. The Fund informed the Board that during the year 2016, there was a write-off of overpayment receivables of $148,266.61.

131. The Board noted that the overpayments were mainly on account of the death of the beneficiaries that came to the notice of the Fund subsequently.

### 2. Ex gratia payments

132. The Fund reported that there were no ex gratia payments by the Fund during the year 2016.

### 3. Cases of fraud and presumptive fraud

133. In accordance with the International Standards on Auditing (ISA 240), the Board plans its audits of the financial statements so that it has a reasonable expectation of identifying material misstatements and irregularity (including those resulting from fraud). Our audit, however, should not be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with management.

134 During the audit, the Board made enquiries regarding the oversight responsibility of management for assessing the risks of material fraud and the processes in place for identifying and responding to the risks of fraud, including any specific risks that management had identified or that had been brought to its attention. In addition, the Board enquired whether the Fund had any knowledge of any actual, suspected or alleged fraud; it also made enquiries of the Office of Internal Oversight Services in that regard. The additional terms of reference governing external audit include cases of fraud and presumptive fraud in the list of matters that should be referred to in its report.

135. The Fund reported that there were no cases of fraud or presumptive fraud that related to the staff of the Fund during the year ended 31 December 2016.

## D. Acknowledgement

136. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Chief Executive Officer of the Fund, the Representative of the Secretary-General for the investment of the assets of the Fund and the members of their staff.

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor General of India
Chair of the Board of Auditors
(Lead Auditor)

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the
United Republic of Tanzania

(*Signed*) Kay Scheller
President of the German Federal Court of Auditors

30 June 2017

# Annex

## Status of implementation of recommendations up to the year ended 31 December 2015

| *No* | *Audit report year* | *Paragraph reference* | *Recommendations of the Board* | *Response of the United Nations Joint Staff Pension Fund* | *Board's assessment* | *Status after verification* | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | *Implemented* | *Under implementation* | *Not implemented* | *Overtaken by events* |
| 1 | 2013 (A/69/9, annex X) | 19 | The Board recommends that the Fund closely collaborate with member organizations to ensure that those organizations submit contribution data in a timely manner, and keep in close communication with the actuarial service provider to ensure that the actuarial report could be produced and included in the formal financial statements in a timely manner. | To expedite the completion of the financial statements, a roll-forward of the previous actuarial valuation results will be reflected in the interim years between biennial actuarial valuations, as was the case for the financial statements for the year ended 31 December 2015. The 2015 actuarial valuation of the Fund will be reflected in the financial statements of the Fund for the year ended 31 December 2016. Complementarily, the Fund will continue to follow up with member organizations and take advantage of new technologies and systems to ensure that the organizations submit contribution data in a timely manner. | This recommendation was under implementation. | | X | | |
| 2 | 2013 (A/69/9, annex X) | 47 | The secretariat of the Fund agreed with the Board's reiterated recommendation to: (a) continue to improve controls and efficiency of the participant reconciliation exception process to ensure the discrepancies are identified and reconciled with member organizations in a timely manner; and (b) prepare monthly and year-end contribution reconciliations to ensure the accuracy of the contributions and receivables recorded in pension system and financial statements. | The participant reconciliation exceptions process is a quality improvement exercise that does not affect the accuracy of the financial statements. The year-end reconciliation is conducted to ensure the accuracy of the contributions and receivables recorded in the financial statements. Discrepancies identified in the contribution data require action and resolution by member organizations of the Fund. The Fund will complete the implementation of the project for the monthly reconciliation of contributions, which was approved in the Fund's budget for the biennium 2016-2017, for one member organization by the fourth quarter of 2017. | This recommendation was under implementation. | | X | | |

| No. | Audit report year | Paragraph reference | Recommendations of the Board | Response of the United Nations Joint Staff Pension Fund | Board's assessment | Status after verification | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Implemented | Under implementation | Not implemented | Overtaken by events |
| 3 | 2013 (A/69/9, annex X) | 51 | The secretariat of the Fund agreed with the Board's recommendation to: (a) utilize and promote the online self-service as an additional tool in the certificate of entitlement process along with the smooth implementation of IPAS; and (b) consider establishing a practical plan to develop an automatic signature verification system or thumbprint/live image verification system to facilitate the certificate of entitlement process. | The Fund has implemented a number of actions to enhance the certificate of entitlement process, including the review of the annual cycle to ensure that all activities, from the date of the mailing to the related follow-up actions, are completed within one year. The new member self-service (certificate of entitlement tracker), released on 31 August 2016, allows beneficiaries to download the certificate of entitlement form and monitor when the signed certificate of entitlement was received by the Fund. The Fund also explored the possibility of engaging corresponding banks in the certificate of entitlement process; however, this was not feasible, given the use of multiple correspondent banks to distribute payments to 190 countries and a diverse set of local regulations that impede banks' involvement in the process. The Fund will continue exploring opportunities to enhance the certificate of entitlement process. | This recommendation was under implementation. | | X | | |
| 4 | 2014 (A/70/325, annex VI, chap. II) | 30 | Expedite the introduction of the counterparty settlement system in a time-bound manner. | The first phase of the implementation of the Bloomberg Asset and Investment Manager trade order management system was completed on 18 January 2016, and the new trade order management system includes a counterparty settlement system. | This recommendation was under implementation and has been implemented partially. | | X | | |
| 5 | 2014 (A/70/325, annex VI, chap. II) | 35 | Explore alternatives to mitigate the foreign exchange losses, including a detailed cost-benefit study for a suitable hedging strategy. | During 2015, the Investment Management Division studied various alternatives to its existing practice during 2015, as mentioned in paragraph 74 of the Board's previous report (A/71/5/Add.16, chap. II). Hedging of currency risk was considered and was not utilized, in recognition of the zero-sum game representation over time. During 2016, the Division agreed to conduct a formal currency study, and procurement of a consultant is under way. | This recommendation was under implementation. | | X | | |

| No. | Audit report year | Paragraph reference | Recommendations of the Board | Response of the United Nations Joint Staff Pension Fund | Board's assessment | Status after verification | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Implemented | Under implementation | Not implemented | Overtaken by events |
| 6 | 2014 (A/70/325, annex VI, chap. II) | 41 | Take steps to achieve the policy benchmarks on each portfolio by improving its internal investment processes and practices and endeavour to achieve the overall minimal real return of 3.5 per cent | The investment return should be evaluated over the medium-term and long-term horizons. The Investment Management Division, from this perspective, has a successful track record, meeting or exceeding the policy benchmark for the Fund and the benchmarks for most of the underlying portfolios.<br>The Division has been enhancing internal investment research resources over the years and conducting fundamental research on both the macro and micro levels. At the same time, the risk budgets were set and carefully monitored by the Risk and Compliance Section on a regular basis.<br>The new strategic asset allocation was set effective 1 August 2015 after an intensive asset liability management study had been conducted. The purpose of the study was to increase the probability of achieving the 3.5 per cent real rate of return investment objective over the long term without undue risk by reviewing numerous scenarios that incorporate both asset- and liability-side variables for the Fund. The alternative investment category was formally added with a target allocation of 5 per cent of the Fund, and the target allocation for the real asset category was increased from 6 per cent to 9 per cent. The equity, fixed income and cash target allocations were reduced. The strategic asset allocation will be reviewed periodically. | This recommendation was under implementation. | | X | | |
| 7 | 2014 (A/70/325, annex VI, chap. II) | 48 | The Board reiterates that the Fund continue to reconcile and resolve all participant reconciliation exceptions with member organizations in a timely manner. Until such time as a system is implemented to enable monthly reconciliations, the Fund | The participant reconciliation exceptions process is a quality improvement exercise that does not affect the accuracy of the financial statements. The year-end reconciliation is conducted to ensure the accuracy of the contributions and receivables recorded in the financial statements. Discrepancies identified in the contribution data require action and resolution by member organizations of the Fund. The Fund will complete the | This recommendation was under implementation. | | X | | |

| No | Audit report year | Paragraph reference | Recommendations of the Board | Response of the United Nations Joint Staff Pension Fund | Board's assessment | Status after verification | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Implemented | Under implementation | Not implemented | Overtaken by events |
| | | | may consider including a suitable disclosure in the financial statements on the quantum of unresolved participant reconciliation exceptions. | implementation of the project for the monthly reconciliation of contributions, which was approved in the Fund's budget for the biennium 2016-2017, for one member organization by the fourth quarter of 2017. A disclosure in the financial statements was not deemed necessary, since the participant reconciliation exceptions process does not affect the accuracy of the financial statements. | | | | | |
| 8 | 2014 (A/70/325, annex VI, chap. II) | 53 | Ensure adherence to the stipulated benchmark for the processing of benefits through improvements in efficiencies and use of information technology enabled services, since service to its members is the primary function of the Fund. | The Fund's strategic framework approved by the Pension Board specifies the performance indicator and target for benefits processing. The Fund has implemented various initiatives approved by the Pension Board at its sixty-third session to enhance performance in benefits processing, including the creation of dedicated task forces and in-depth process review to identify opportunities for efficiency. As a result, the Fund has achieved substantial progress in terms of processing benefits within the performance benchmark of 15 business days. Benefits processing times have improved steadily since the beginning of 2016. The ageing and volume of outstanding cases also reflects significant improvement, with over 90 per cent of actionable separation cases processed within the same calendar month. Performance indicators are monitored using periodic enhanced performance reports and a business intelligence dashboard. Death in service, survivor and disability benefits continue to be handled as "priority" cases. | This recommendation was under implementation. | | X | | |
| 9 | 2014 (A/70/325, annex VI, chap. II) | 65 | (a) Formulate a holistic policy for the strategic planning, governance and management of various information technology projects required or under implementation; and (b) take proactive measures to expedite the | The Investment Management Division is in the process of developing a comprehensive information and communications technology strategy that will address both infrastructure and applications, in order to ensure secure and continuous operations. Progress has been made, as evidenced by the successful implementation of the Bloomberg Asset and Investment Manager trade order management system as | This recommendation was under implementation. | | X | | |

| No. | Audit report year | Paragraph reference | Recommendations of the Board | Response of the United Nations Joint Staff Pension Fund | Board's assessment | Status after verification | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Implemented | Under implementation | Not implemented | Overtaken by events |
| | | | procurement of the replacement for the existing trade order management system and restrict additional expenditure on interim measures. | from 18 January 2016. The Division is in the process of procuring a consultant to create a target operating model. | | | | | |
| 10 | 2015 (A/71/5/Add.16, chap. II) | 28 | The Board recommends that the Fund, while filling the vacancies at the senior levels at the earliest opportunity, draw up a succession plan that foresees and addresses the changes that will occur when senior positions become vacant. | The Investment Management Division developed and implemented a succession plan in December 2016. | The current succession plan does not address all the issues related to vacancies in senior positions. The recommendation is reiterated in the present report, and is considered as under implementation. | | X | | |
| 11 | 2015 (A/71/5/Add.16, chap. II) | 37 | The Board recommends that the Fund devise a mechanism to assess the value addition to performance owing to active management of the portfolio on a regular basis so as to assess its impact and implement course correction as deemed necessary. | The Investment Management Division developed risk and performance dashboards along with new fixed income limits. The Division also developed long-term performance statistics, including local currency performance for international benchmarking. | The Fund informed the Board that it is working on active risk limits for equity. | | X | | |
| 12 | 2015 (A/71/5/Add.16, chap. II) | 44 | The Board recommends that the Fund establish customized reference benchmarks taking into account the Fund's special criteria, which would better measure the Fund's overall performance. | The Investment Management Division developed and implemented a new performance dashboard to measure the impact of restricted stocks (tobacco and arms) relative to benchmarks. | This recommendation was implemented. | X | | | |

| No | Audit report year | Paragraph reference | Recommendations of the Board | Response of the United Nations Joint Staff Pension Fund | Board's assessment | Status after verification | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Implemented | Under implementation | Not implemented | Overtaken by events |
| 13 | 2015 (A/71/5/ Add.16, chap. II) | 49 | The Board recommends that the Fund:<br>(a) introduce a mechanism for a more frequent supervisory review of the underperforming securities on the basis of certain predefined parameters; and<br>(b) formalize the system for regularly tracking risk tolerance monitoring and risk management, by the Representative of the Secretary-General through the Director of the Investment Management Division and the Deputy Director for Risk and Compliance. | The Investment Management Division introduced a mechanism to monitor the underperforming securities. For performance monitoring, a report for the top 10 and bottom 10 performing securities is included in: (a) the quarterly Investments Committee Blue Book; and (b) the Division's weekly investment meeting materials. In addition, for risk monitoring, the reports for the top and bottom 10 portfolio weights, tracking risk, tail risks and currency risks for each portfolio, are generated through RiskMetrics. On a quarterly basis, the largest holdings and the largest positive and negative performance contributions have been included in the Blue Book since 227th meeting of the Committee (November 2015). | This recommendation was implemented. | X | | | |
| 14 | 2015 (A/71/5/ Add.16, chap. II) | 60 | The Board recommends that the Fund review its investment and risk processes, including learning lessons from higher-performing funds, so as to improve its efforts to achieve the targeted 3.5 per cent real rate of return. | An independent assessment and peer comparison of the Fund's investment main practices, investment management and risk management was conducted by Deloitte in 2016. | This recommendation was implemented. | X | | | |
| 15 | 2015 (A/71/5/ Add.16, chap. II) | 68 | The Board recommends that the Fund carry out a review of the cash requirements of various currencies in order to keep a minimum investment in cash, given that it carries a low return and is subject to foreign exchange fluctuation. | Procurement is under way to conduct a formal currency study, which will include a review of related cash requirements. The Investment Management Division and the custodian (Northern Trust) are reviewing the logistics related to separating investment and operational cash from an accounting and performance perspective. The Division also developed a new cash flow forecast procedure. | This recommendation was under implementation. | | X | | |

| No. | Audit report year | Paragraph reference | Recommendations of the Board | Response of the United Nations Joint Staff Pension Fund | Board's assessment | Status after verification | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Implemented | Under implementation | Not implemented | Overtaken by events |
| 16 | 2015 (A/71/5/Add.16, chap. II) | 75 | The Board recommends that the Fund: (a) address the foreign exchange exposure issue and employ suitable procedures and tools to mitigate foreign exchange losses; and (b) develop an internal mechanism to monitor, evaluate and manage losses or gains owing to foreign exchange in addition to regular monitoring of the fair value of the assets. | Procurement is under way to conduct a formal currency study, which will include a review of foreign currency exposure and related tools. The Investment Management Division developed an internal mechanism to monitor, evaluate and manage foreign currency by creating new reports for local currency analysis of Fund assets. | This recommendation was under implementation. | | X | | |
| 17 | 2015 (A/71/5/Add.16, chap. II) | 83 | The Board recommends that the Fund review its processes for fixed-income investments to ensure that it meets or exceeds its benchmark. | The Investment Management Division reviewed its processes for fixed income investments, resulting in the adoption of new fixed income limits for duration and currency, which will ensure that the fixed income portfolio is managed in close proximity to the duration and currency parameters of its benchmark, the Barclays Global Aggregate Index. | This recommendation was treated as under implementation in 2016 as returns from the fixed income portfolio are still below the benchmark. | | X | | |
| 18 | 2015 (A/71/5/Add.16, chap. II) | 89 | The Board recommends that the Fund prepare a time-bound action plan to finalize and publish its selection and evaluation criteria for external fund and discretionary investment managers. | The Investment Management Division finalized and implemented an external manager policy, which includes policies related to the selection, monitoring and termination of external (discretionary) managers. The Division has also filled the post of External Manager (P-4), the incumbent of which is responsible for the Division's external manager programme. | The policy is finalized; deficiencies in the policy have been noticed during the current audit and a separate recommendation is made thereon. As the Fund has finalized and published the policy on hiring external fund managers, this recommendation is treated as implemented. | X | | | |

| No. | Audit report year | Paragraph reference | Recommendations of the Board | Response of the United Nations Joint Staff Pension Fund | Board's assessment | Status after verification | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Implemented | Under implementation | Not implemented | Overtaken by events |
| 19 | 2015 (A/71/5/Add.16, chap. II) | 94 | The Board recommends that the Fund enter into a service-level agreement defining the respective roles and responsibilities and service-level benchmarks and that it develop a mechanism to secure compliance with the agreement. | The Investment Management Division is working with Bloomberg to develop a service level agreement defining the respective roles and responsibilities, service level benchmarks and a mechanism to secure compliance. The Division hopes to have a service level agreement in place by the third quarter of 2017. | This recommendation was under implementation. | | X | | |
| 20 | 2015 (A/71/5/Add.16, chap. II) | 99 | The Board recommends that the Fund: (a) resolve the issues of data migration; and (b) frame key performance indicators in accordance with functional requirements for assessing the accuracy and timeliness of IPAS outcomes. | There were minimal data exceptions in the migration to the new Integrated Pension Administration System, which occurred only for historical data not affecting any calculations. Data exceptions have been corrected as part of normal verification in benefits processing since the launch of the System. A business intelligence tool will soon be deployed for monitoring performance indicators and targets. Performance indicators will be available for analysis and monitoring in a management dashboard expected to be completed by the third quarter of 2017. | This recommendation was under implementation. | | X | | |
| 21 | 2015 (A/71/5/Add.16, chap. II) | 105 | The Board recommends that the Fund: (a) acknowledge all queries and complaints received from all sources; (b) segregate queries and complaints so to address them appropriately; (c) devise a system of categorization and prioritization of complaints and their resolution; (d) inform the client periodically about the progress achieved in the resolution of the complaint; (e) devise a system for monitoring and | The Pension Fund is implementing a new client service model to ensure that client enquiries are addressed efficiently and effectively. Some elements of the new client service model have already been deployed, with excellent results, including: (a) a dedicated two-tier call centre to answer all telephone calls and member self-service emails was established in October 2016; (b) the member self-service feature was launched in August 2016 to provide real-time information on members' accounts, disbursements and the receipt of documents and forms sent to the Fund; and (c) the new website of the Fund includes a feature to categorize and track emails, as well as useful information to address most common queries from participants and beneficiaries. These enhancements complement the in-person | This recommendation was under implementation. | | X | | |

| No. | Audit report year | Paragraph reference | Recommendations of the Board | Response of the United Nations Joint Staff Pension Fund | Board's assessment | Status after verification | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | *Implemented* | *Under implementation* | *Not implemented* | *Overtaken by events* |
| | | | reporting the status of grievances to the appropriate levels in the Fund in order to ensure an effective client delivery mechanism; and (f) review the complaints data to help to identify the weaknesses of the system and to improve and streamline the existing processes. | service provided at the Fund's offices in New York and Geneva, which is also tracked and monitored. | | | | | |
| 22 | 2015 (A/71/5/Add.16, chap. II) | 110 | The Board recommends that the Fund prescribe a time frame for servicing the case load. An internal reporting framework for each type of benefit based on its priority should be established. | The Fund's strategic framework, approved by the Pension Board, specifies the performance indicator and target for benefits processing. To enhance performance in benefits processing, the Pension Fund has implemented various initiatives approved by the Pension Board at its sixty-third session. As a result, the Fund has achieved substantial progress in terms of processing benefits within the performance benchmark of 15 business days. Benefits processing times have improved steadily since the beginning of 2016. The ageing and volume of outstanding cases also reflects significant improvement, with over 90 per cent of actionable separation cases processed within the same calendar month. Performance indicators are monitored using periodic enhanced performance reports and a business intelligence dashboard. Death in service, survivor and disability benefits continue to be handled as "priority" cases. | This recommendation was under implementation. | | | X | |
| 23 | 2015 (A/71/5/Add.16, chap. II) | 115 | The Board recommends that the Fund simplify the process of obtaining the certificate of entitlement, including exploring the option of engaging the corresponding banks in the process. | The Fund has implemented a number of actions to enhance the certificate of entitlement process, including the review of the annual cycle to ensure that all activities, from the date of the mailing to the related follow-up actions, are completed within one year. The new member self-service (certificate of entitlement tracker), released on 31 August 2016, allows beneficiaries to download the certificate of | This recommendation was under implementation. | | | X | |

| No. | Audit report year | Paragraph reference | Recommendations of the Board | Response of the United Nations Joint Staff Pension Fund | Board's assessment | Status after verification | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Implemented | Under implementation | Not implemented | Overtaken by events |
| | | | | entitlement form and monitor when the signed certificate of entitlement was received by the Fund. The Fund also explored the possibility of engaging corresponding banks in the certificate of entitlement process; however, this was not feasible given the use of multiple correspondent banks to distribute payments to 190 countries and a diverse set of local regulations that impede banks' involvement in the process. The Fund will continue exploring opportunities to enhance the certificate of entitlement process. | | | | | |
| 24 | 2015 (A/71/5/Add.16, chap. II) | 123 | The Board recommends that the Fund: (a) impress upon the participating organizations the need to ensure that they identify and submit to the Fund sufficiently in advance cases that are due for separation in the normal course of business; and (b) check the status of documentation and jointly devise a mechanism to resolve the issues relating to incomplete or missing documentation from member organizations. | The roles and responsibilities of the staff pension committees of member organizations are set out in the Regulations and Rules of the Fund. The terms of reference of the staff pension committees and their secretaries consolidate all the roles and responsibilities and recognize that member organizations are responsible for the accurate, complete and timely submission of separation information and documents to the Fund. The Fund continues to work closely with member organizations to identify mechanisms to expedite the submission of separation documents to the Fund and resolve issues related to incomplete and missing documentation from member organizations. The Fund is conducting, with the support of an external consultant and in coordination with the member organizations, an end-to-end review of separation-to-entitlement process to identify opportunities to achieve greater efficiency and effectiveness and improve coordination. The results of the end-to-end review will be presented to the Pension Board at its sixty-fourth session, in July 2017. Complementarily, the member self-service feature, launched in August 2016, provides real-time information on members' accounts, disbursements and the receipt of documents and forms sent to the Fund. | This recommendation was under implementation. | | X | | |

| No. | Audit report year | Paragraph reference | Recommendations of the Board | Response of the United Nations Joint Staff Pension Fund | Board's assessment | Status after verification | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Implemented | Under implementation | Not implemented | Overtaken by events |
| 25 | 2015 (A/71/5/Add.16, chap. II) | 129 | The Board recommends that participant reconciliation exceptions need to be resolved in a time-bound manner in order to avoid any dispute with the participating organizations and to ensure that up-to-date and accurate financial statements can be prepared for the Fund and the participating organizations. | The participant reconciliation exceptions process is a quality improvement exercise that does not affect the accuracy of the financial statements. The year-end reconciliation is conducted to ensure the accuracy of the contributions and receivables recorded in the financial statements. Discrepancies identified in the contribution data require action and resolution by member organizations of the Fund. The Fund will complete the implementation of the project for the monthly reconciliation of contributions, which was approved in the Fund's budget for the biennium 2016-2017, for one member organization by the fourth quarter of 2017. | This recommendation was under implementation. | | X | | |
| 26 | 2015 (A/71/5/Add.16, chap. II) | 132 | The Board recommends that the Fund: (a) finalize the anti-fraud policy at the earliest opportunity; and (b) widely circulate the policy and make staff aware of its provisions and implications. | The Investment Management Division developed and implemented an anti-fraud and anti-corruption policy in November 2016. This is a living document, which may be further updated periodically. The Division also must comply with the Anti-Fraud and Anti-Corruption Framework, which was adopted by the United Nations Secretariat in 2016. | This recommendation was implemented. | X | | | |
| **Total** | | | | | **26** | **5** | **21** | **0** | **0** |
| **Percentage** | | | | | **100** | **19** | **81** | | |

# Chapter III
## Certification of the financial statements

### Letter dated 24 April 2017 from the Chief Financial Officer of the United Nations Joint Staff Pension Fund addressed to the Chair of the Board of Auditors

The financial statements of the United Nations Joint Staff Pension Fund for the year ended 31 December 2016 have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS), as issued by the International Public Sector Accounting Standards Board, and International Accounting Standard (IAS) 26, Accounting and reporting by retirement benefit plans, as issued by the International Accounting Standards Board. The summary of significant accounting policies applied in the preparation of the financial statements is included in the notes to the financial statements. The notes provide additional information on and clarification of the financial activities undertaken by the Fund during the period covered by these statements.

I certify that the appended financial statements of the United Nations Joint Staff Pension Fund are correct in all material respects.

(*Signed*) Karl-Ludwig W. **Soll**
Chief Financial Officer
United Nations Joint Staff Pension Fund

## Statement of internal control for the year ended 31 December 2016

### Scope of responsibility

The United Nations Joint Staff Pension Fund was established by the General Assembly in 1949 to provide retirement, death, disability and related benefits for staff of the United Nations and the other international organizations admitted to membership in the Fund. The Fund is a multiple employer, defined benefit plan and is governed by the United Nations Joint Staff Pension Board, a staff pension committee for each member organization and a secretariat to the Board and to each such committee.

The Chief Executive Officer of the Fund, who is also the Secretary of the Board, discharges the Board's responsibility for the administrative supervision of the Fund secretariat. The Chief Executive Officer, under the authority of the Board, collects contributions, ensures record keeping for the Fund secretariat, certifies benefit payments and deals with other matters related to the Fund's participants and beneficiaries. The Chief Executive Officer is also responsible for ensuring actuarial matters are addressed with a view to maintaining the long-term sustainability and financial health of the Fund.

The investment of the assets of the Fund is the responsibility of the Secretary-General. The Secretary-General has delegated his authority and responsibility to act on his behalf in all matters involving his fiduciary duties related to the investment of the assets of the Fund to the Representative of the Secretary-General for the investment of the assets of the United Nations Joint Staff Pension Fund. The Representative has delegated responsibility for the management and accounting of the investments of the Fund. The Representative exercises this duty and makes investment decisions after consultation with the Investments Committee and in the light of observations made from time to time by the Pension Board on investment policy.

The Chief Executive Officer and the Representative of the Secretary-General are responsible for establishing and maintaining a sound system of internal controls, in their respective areas of responsibility, to ensure the accomplishment of objectives, the economic use of resources, the reliability and integrity of information, compliance with rules and regulations and the safeguarding of assets.

### Purpose of the system of internal control

The system of internal control is designed to reduce and manage rather than eliminate the risk of failure to achieve the objectives of the Fund and to improve performance. Therefore, it can only provide a reasonable and not absolute assurance of effectiveness. Internal control is an ongoing process, effected by the Fund's governing bodies, senior management and other personnel, designed to provide reasonable assurance concerning the achievement of the following internal control objectives:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable rules and regulations

The Pension Fund statement of internal control is related to the internal control objective of reliability of financial reporting, and therefore its scope is limited to the effectiveness of internal controls over financial reporting as at 31 December 2016.

**Capacity to handle risk**

The Pension Fund has implemented a governance structure, management process and internal and external oversight mechanisms to adequately identify, assess, manage, monitor and report the risks inherent to its operations. The enterprise-wide risk management framework adopted by the Fund reflects the nature of its operations and development as well as its specific requirements.

The Pension Fund internal control policy, approved in May 2014, defines internal control objectives, components and responsibilities, as well as the lines of defence in terms of internal control, which include: (a) management; (b) risk management and compliance sections; (c) internal audit; and (d) external audit. The Fund's internal controls over financial reporting provide reasonable assurance that assets are safeguarded, transactions are properly recorded and authorized and there are no material misstatements in the financial statements.

**Pension Fund risk management and internal control framework**

The purpose of the enterprise-wide risk management framework is to identify events that may affect the Pension Fund and manage risk within the Fund's risk appetite. The Fund's risk management framework includes the following components:

- *Risk management governance*. The operation of the risk management framework is supported by the full ownership and accountability of the Pension Board, management and staff for risk management activities. Specialized committees conduct oversight and provide advice to the Pension Board on risk management and internal control, as follows:
    - The Audit Committee oversees the work of internal and external auditors and receives information on the operation of the risk management and internal control framework.
    - The Assets and Liabilities Monitoring Committee advises the Board on risk management, funding policy, asset-liability management and investment policy matters.
- *Enterprise-wide risk management policy*. The policy provides the basis for the operation of the risk management framework and specifies its applicability throughout the Fund. The enterprise-wide risk management methodology complements the policy and defines the steps, roles and responsibilities in the risk management process.
- *Enterprise-wide risk assessment*. The Fund conducts periodic risk assessment exercises, which serve as a basis for defining strategies to address the Fund's key risks.
- *Risk monitoring*. The Enterprise-wide Risk Management Working Group, chaired by the Chief Executive Officer of the Fund and the Representative of the Secretary-General, includes representatives from all units of the Fund and monitors the Fund's risk profile and the implementation of risk management

strategies. Risk management officers promote the implementation of the enterprise-wide risk management framework, facilitate risk assessments, advise on the implementation of risk management strategies and monitor and report on the Fund's risk profile.

**Review of the effectiveness of internal controls over financial reporting**

The Pension Fund has considered the *Internal Control-Integrated Framework* of the Committee of Sponsoring Organizations of the Treadway Commission as a guideline for assessing its internal controls over financial reporting. The review by the Fund management of the effectiveness of internal controls over financial reporting as at 31 December 2016 was supported by:

- The preparation of the statement of internal control, which involved:
  - o A scoping exercise to identify key processes, accounts and disclosures and their supporting key information and communications technology (ICT) services.
  - o Identification of key financial reporting risks.
  - o Identification and documentation of: (a) entity level controls; (b) key controls over financial reporting; and (c) key ICT general controls that support the operation of other controls over financial reporting.
  - o Updating of process documentation.
  - o Testing of the operational effectiveness of the key controls over financial reporting performed by management.
- Assertion letters on the effectiveness of internal controls over financial reporting, signed by key officers in the Fund secretariat and the Investment Management Division. These officers recognize their responsibility for maintaining and executing internal controls over financial reporting in their respective areas of responsibility and for reporting any deficiencies identified.
- An independent service auditor performed an independent service audit on the controls applied by Northern Trust, the independent master record keeper for the Fund's investments and a custodian bank for the investments. Additionally, the Fund received an independent service audit report from Citibank NA, a second custodian bank for the investment of the Fund. The audits were conducted in accordance with the standards defined by the American Institute of Certified Public Accountants and the International Auditing and Assurance Standards Board. Both audits concluded that in all material respects, the controls were suitably designed and operating effectively to provide reasonable assurance that control objectives would be achieved.
- An independent assurance provider was engaged to assess the effectiveness of managing information security risks of the new Integrated Pension Administration System, following the protocols defined by the International Organization for Standardization (ISO). In April 2016, the Fund secretariat obtained the ISO 27001 information security certification for the System, which provides assurances that the new system's operations and maintenance are in accordance with the information security management standard. The Fund secretariat is committed to maintaining the ISO 27001 certification, which is valid for three years, until March 2019.

- Independent auditors performed an International Standard on Assurance Engagements audit ISAE 3402 of the internal control framework of the United Nations International Computing Centre. The ISAE 3402 audit report provides an independent assessment of whether the Centre's controls are suitably designed and operated effectively. The ISAE 3402 audit report's conclusion was an unqualified opinion.

- The Audit Committee monitored the work of internal and external auditors and reviewed the results of audit examinations and the implementation of audit recommendations. The Representative of the Secretary-General and the Fund's Chief Executive Officer, Chief Financial Officer, Risk and Compliance Officers and internal and external auditors had periodic meetings with the Audit Committee.

- In accordance with its mandate, the Office of Internal Oversight Services, as the internal auditors of the Fund, provided assurance that internal controls are adequate and functioning effectively. In the execution of a risk-based audit plan approved by the Audit Committee, the Office conducted audit examinations, including on high-risk areas, to provide assurance on the effectiveness of internal controls and identify control deficiencies. The Chief Executive Officer and the Representative of the Secretary-General, in their respective areas of responsibility, took appropriate actions to address recommendations resulting from internal audits. The Fund had no open critical audit recommendations as at 31 December 2016.

- In accordance with its mandate, the Board of Auditors, as the external auditors of the Fund, examined independently the financial statements, performing such tests and other procedures as the auditors considered necessary to express an opinion in their annual audit report. The external auditors were given full and unrestricted access to all financial records and related data and to the Fund's management and Audit Committee to discuss any findings related to the integrity and reliability of the Fund's financial reporting. The external audit report accompanies the financial statements.

**Significant internal control matters arising during the year**

The statement of internal control for the year ended 31 December 2016 draws attention to key areas with an impact on internal controls over financial reporting, as follows:

(a) In April 2015, the Fund secretariat issued its pension fraud awareness, reporting and escalation policy to promote awareness, prevent fraud, enhance the Fund's internal controls and establish guidelines on reporting and escalation of fraud-related concerns. The policy establishes that the Fund has zero tolerance for fraud, which implies that all fraud concerns will be reported and investigated and corrective actions taken when needed. In November 2016, the Investment Management Division issued its anti-fraud and anti-corruption policy as approved by the Representative of the Secretary-General. The fraud prevention policies issued separately by the Fund secretariat and the Investment Management Division supplement the Anti-Fraud and Anti-Corruption Framework of the United Nations Secretariat, issued in September 2016, and address specific pension fraud risks and investment fraud risks;

(b) The Integrated Pension Administration System was introduced in August 2015. During 2016, a series of enhancements and new functionalities were added to

offer a wider range of services in the System, including the member self-service and the feature to track the receipt of the certificate of entitlement;

(c) The Fund's management, within its scope of responsibility, has successfully implemented various actions approved by the Pension Board at its sixty-third session, held in July 2016, to address temporary and structural challenges related to efficiency aspects of the processing of benefit entitlements and client servicing. Two critical audit recommendations related to benefit processing and client services have been remediated by management;

(d) Complementarily, the Fund secretariat is conducting jointly with the United Nations, the World Health Organization, the Food and Agriculture Organization of the United Nations, the World Food Programme and the United Nations Children's Fund a "holistic", or end-to-end, review from the separation of the staff (including human resources and payroll functions and the submission of accurate, complete and timely documentation to the Fund) to the entitlement and payment functions in order to identify opportunities for improvement and streamlining the overall process. The results of the review will be presented to the Pension Board at its sixty-fourth session, in July 2017.

**Statement**

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error or circumvention. Accordingly, even effective internal controls can provide only reasonable but not absolute assurance. Further, because of changes in conditions, the effectiveness of internal controls may vary over time.

The Chief Executive Officer and the Representative of the Secretary-General are responsible for establishing and maintaining a sound system of internal controls over financial reporting, in their respective areas of responsibility, to ensure the reliability and integrity of the financial statements.

Within the scope of our respective areas of responsibility, we are committed to addressing any weaknesses in internal controls over financial reporting identified during the year and to ensuring continuous improvement of internal controls.

Based on the above, we conclude that to our best knowledge and information there are no material weaknesses in internal controls over financial reporting, in our respective areas of responsibility, that would need to be raised in the present document for the year ended 31 December 2016.

(*Signed*) Sergio B. **Arvizú**
Chief Executive Officer
United Nations Joint Staff Pension Fund

(*Signed*) Carolyn **Boykin**
Representative of the Secretary-General
for the investment of the assets of the
United Nations Joint Staff Pension Fund

24 April 2017
New York

# Chapter IV
# Financial report for the year ended 31 December 2016

## A. Introduction

1. The United Nations Joint Staff Pension Fund was established by the General Assembly in 1949 to provide retirement, death, disability and related benefits for staff of the United Nations and the other international organizations admitted to membership in the Fund. The Fund is a multiple employer, defined benefit plan. There are currently 23 member organizations participating in the Fund. All participating organizations and employees contribute to the Fund on the basis of pensionable remuneration. The contribution rate is a fixed rate of 7.9 per cent for participants and 15.8 per cent for employers.

2. The Fund is governed by the United Nations Joint Staff Pension Board, made up of: (a) 12 members appointed by the United Nations Staff Pension Committee, four of whom are elected by the General Assembly, four from those appointed by the Secretary-General and four from those elected by the participants in service in the United Nations; and (b) 21 members appointed by the staff pension committees of the other member organizations in accordance with the rules of procedure of the Fund, seven of whom are chosen by the bodies of the member organizations corresponding to the General Assembly, seven from those appointed by the chief administrative officers of the member organizations and seven from those chosen by the participants in service.

3. The Fund is administered by the Pension Board, a staff pension committee for each member organization and a secretariat to the Board and to each such committee. The Chief Executive Officer of the Fund, who also serves as Secretary of the Pension Board, is appointed by the Secretary-General on the recommendation of the Pension Board.

4. The Chief Executive Officer is responsible for the administration of the Fund and for the observance, by all concerned, of the Regulations, Rules and Pension Adjustment System of the Fund. This includes responsibility for the establishment of policy; the administration of the Fund's operations and the overall supervision of its staff; the responsibility for the organization, servicing and participation of the Fund secretariat in the meetings of the Pension Board, its Standing Committee, the Audit Committee, the Committee of Actuaries, the Assets and Liabilities Monitoring Committee and other related bodies; the responsibility for representing the Board at meetings of the Fifth Committee of the General Assembly, the Advisory Committee on Administrative and Budgetary Questions, the International Civil Service Commission and any other pertinent bodies; and serving as Secretary of the United Nations Staff Pension Committee. With regard to administrative services, the Fund utilizes the United Nations "machinery", including payroll, recruitment and other human resources functions; procurement; administration of justice; internal audit; and other administrative services. Within this framework, the Chief Executive Officer is responsible for providing some administrative support to the Investment Management Division.

5. The investment of the assets of the Fund shall be decided upon by the Secretary-General after consultation with the Investments Committee and in the light of observations and suggestions made from time to time by the Pension Board

on the investments policy. The Secretary-General has delegated his authority and responsibility to act on his behalf in all matters involving his fiduciary duties related to the investment of the assets of the Fund to the Representative of the Secretary-General for the investment of the assets of the Fund. The Representative of the Secretary-General shall arrange for the maintenance of detailed accounts of all investments and other transactions relating to the Fund, which shall be open to examination by the Pension Board.

6. The Integrated Pension Administration System went live on 1 August 2015 and has replaced several of the ageing information technology systems, including the United Nations Joint Staff Pension Fund Administration System and the Lawson accounting software.

## B. Financial performance

### Changes in net assets available for benefits

7. There was an increase in the net assets available for benefits for the year ended 31 December 2016 of $2,358.1 million (2015 restated: deficit of $753.5 million). This increase of $3,111.6 million is largely attributable to investment income for the year.

8. Investment income for 2016 was $2,667.1 million (2015: negative investment income of $458.3 million). Investment income for 2016 comprised net appreciation in fair value of investments of $2,262.1 million, dividend income of $821.7 million and interest income of $325.8 million, offset by foreign currency losses of $679.9 million. The change in foreign currency losses included $776.4 million realized foreign currency loss and $96.5 million unrealized foreign currency gain. The increase of $3,125.4 million from the prior year was largely driven by the increase in the fair value of equities and the decrease in foreign currency losses.

9. Total contributions (from participants: $757.0 million; member organizations: $1,506.2 million; and other contributions: $10.3 million) for 2016 were $2,273.5 million (2015: $2,257.0 million), reflecting an increase of $16.5 million (or 0.7 per cent) over the total contributions for 2015.

10. Benefit expenses for 2016 of $2,506.1 million (2015 restated: $2,498.0 million) reflected an increase of $8.1 million (or 0.3 per cent) over the benefit expenses for 2015.

11. Administrative expenses for 2016 of $74.8 million (2015: $56.7 million) reflected an increase of $18.1 million (or 31.9 per cent). The increase in administrative expense was due primarily to change in the actuarial value of the after-service health insurance of $11.8 million from an actuarial gain of $5.6 million in 2015 to an actuarial loss of $6.2 million in 2016 and an increase in contractual services of $2.5 million.

### Statement of net assets available for benefits

12. Net assets available for benefits as at 31 December 2016 were $54,488.1 million (2015 restated: $52,130.0 million), which is an increase of $2,358.1 million (or 4.5 per cent).

13. Total Fund cash and cash equivalents as at 31 December 2016 were $1,562.5 million (2015: $1,488.1 million), which is an increase of $74.4 million (or 5.0 per cent).

14. Total investments of the Fund at fair value as at 31 December 2016 were $52,951.2 million (2015: $50,702.1 million), reflecting an increase of $2,249.1 million (or 4.4 per cent). Details of the investment classes as at 31 December 2016 and 31 December 2015 are as follows:

(Millions of United States dollars)

| | *31 December 2016* | *31 December 2015* | *Change* | *Percentage* |
|---|---|---|---|---|
| Short-term investments | 724.5 | 535.0 | 189.5 | 35.4 |
| Equities | 34 455.5 | 32 501.3 | 1 954.2 | 6.0 |
| Fixed income | 12 311.3 | 12 485.1 | (173.8) | (1.4) |
| Real assets | 3 796.1 | 3 315.1 | 481.0 | 14.5 |
| Alternative and other investments | 1 663.8 | 1 865.6 | (201.8) | (10.8) |
| **Total investments** | **52 951.2** | **50 702.1** | **2 249.1** | **4.4** |

15. Total investments and cash and cash equivalents are as follows:

(Millions of United States dollars)

| | *31 December 2016* | *31 December 2015* | *Change* | *Percentage* |
|---|---|---|---|---|
| Total investments | 52 951.2 | 50 702.1 | 2 249.1 | 4.4 |
| Cash and cash equivalents | 1 562.5 | 1 488.1 | 74.4 | 5.0 |
| **Total investments and cash and cash equivalents** | **54 513.7** | **52 190.2** | **2 323.5** | **4.5** |

16. Total liabilities of the Fund as at 31 December 2016 were $237.6 million (2015 restated: $320.2 million), a decrease of $82.6 million (or 25.8 per cent).

### Actuarial situation of the Fund

17. The actuarial present value of accumulated (promised) plan benefits (which does not take into account future increases in pensionable remuneration) is determined by independent actuaries. The amount is derived by applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal or retirement) between the valuation date and the expected date of payment.

18. The actuarial present value of accumulated plan benefits as at 31 December 2016 is as follows:

(Millions of United States dollars)

| | *If future pension payments are made under the Regulations* | |
|---|---|---|
| | *Without pension adjustments* | *With pension adjustments* |
| Actuarial value of vested benefits | | |
| Participants currently receiving benefits | 22 431 | 32 936 |
| Vested terminated participants | 230 | 402 |
| Active participants | 12 381 | 18 783 |
| **Total vested benefits** | **35 042** | **52 121** |
| Non-vested benefits | 1 252 | 1 596 |
| **Total actuarial present value of accumulated plan benefits** | **36 294** | **53 717** |

19. The actuarial present value of accumulated plan benefits as at 31 December 2016 is projected to the disclosure date using standard actuarial techniques on the basis of the 31 December 2013 valuation results and assumes that all economic and demographic assumptions will have been met exactly from 31 December 2013 onward, except actual experience for foreign exchange and inflation experience for the period from 31 December 2013 to 31 December 2015 have been reflected.

### Key statistics

20. The number of Fund participants as at 31 December 2016 was 128,262 (2015: 126,892), an increase of 1,370, or 1.1 per cent.

21. The number of periodic benefits paid by the Fund as at 31 December 2016 was 74,788 (2015: 71,474), an increase of 3,314, or 4.6 per cent.

# Chapter V

# Financial statements for the year ended 31 December 2016

## United Nations Joint Staff Pension Fund

### I. Statement of net assets available for benefits

(Thousands of United States dollars)

| | Note | 31 December 2016 | Restated 31 December 2015 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 4 | 1 562 522 | 1 488 132 |
| Investments | 5, 6 | | |
| Short-term investments | | 724 509 | 534 952 |
| Equities | | 34 455 474 | 32 501 344 |
| Fixed income | | 12 311 322 | 12 485 103 |
| Real assets | | 3 796 144 | 3 315 119 |
| Alternative and other investments | | 1 663 801 | 1 865 629 |
| | | **52 951 250** | **50 702 147** |
| Contributions receivable | | 13 824 | 42 797 |
| Accrued income from investments | 7 | 139 311 | 147 836 |
| Receivable from investments traded | 5 | 15 124 | 16 396 |
| Withholding tax receivable | 8 | 10 501 | 12 604 |
| Other assets | 9 | 33 237 | 40 329 |
| **Total assets** | | **54 725 769** | **52 450 241** |
| **Liabilities** | | | |
| Benefits payable | 10, 25 | 133 782 | 226 421 |
| Payable from investments traded | 5 | 8 138 | 10 796 |
| After-service health insurance and other employee benefit liabilities | 11 | 76 736 | 70 358 |
| Other accruals and liabilities | 12 | 18 987 | 12 638 |
| **Total liabilities** | | **237 643** | **320 213** |
| **Net assets available for benefits** | | **54 488 126** | **52 130 028** |

## United Nations Joint Staff Pension Fund

### II. Statement of changes in net assets available for benefits

(Thousands of United States dollars)

| | Note | For the year 2016 | Restated for the year 2015 |
|---|---|---|---|
| **Investment income/(loss)** | 13 | | |
| Net appreciation/(depreciation) in fair value of investments | | 2 262 071 | (18 126) |
| Interest income | | 325 786 | 355 553 |
| Dividend income | | 821 651 | 777 863 |
| Income from real assets | | 55 015 | 38 302 |
| Foreign currency (losses) | | (679 882) | (1 487 401) |
| Less: transaction costs and management fees | | (117 494) | (124 454) |
| | | **2 667 147** | **(458 263)** |
| **Contributions** | 14 | | |
| From participants | | 757 039 | 751 139 |
| From member organizations | | 1 506 193 | 1 496 003 |
| Other contributions | | 10 266 | 9 835 |
| | | **2 273 498** | **2 256 977** |
| **Other income** | 15 | 3 368 | 8 531 |
| **Benefit expenses** | 16, 25 | | |
| From withdrawal settlements and full commutation benefits | | 117 395 | 193 228 |
| From retirement benefits | | 2 391 291 | 2 304 969 |
| Other benefits/adjustments | | (2 566) | (239) |
| | | **2 506 120** | **2 497 958** |
| **Administrative expenses** | 17 | 74 764 | 56 669 |
| **Other expenses** | 18 | 1 282 | 3 217 |
| **Withholding tax expense** | | 3 749 | 2 857 |
| **Increase/(decrease) in net assets available for benefits** | | **2 358 098** | **(755 496)** |

## United Nations Joint Staff Pension Fund

### III. Cash flow statement

(Thousands of United States dollars)

| | Note | For the year 2016 | For the year 2015 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Purchase of investments | | (13 713 338) | (10 826 284) |
| Proceeds from sale/redemption of investments | | 13 052 796 | 9 425 889 |
| Dividends received from equity investments, excluding withholding tax | | 795 134 | 750 447 |
| Interest received from fixed income investments | | 335 544 | 366 155 |
| Income received from unitized real asset funds, excluding withholding tax | | 55 765 | 37 997 |
| Other income received/(losses incurred), net | | 3 129 | 5 852 |
| Transaction costs, management fees and other expenses paid | | (122 669) | (126 129) |
| Withholding taxes reimbursement, net | | 23 501 | 17 249 |
| **Net cash provided/(used) by investing activities** | | **429 862** | **(348 824)** |
| **Cash flows from operating activities** | | | |
| Contributions from member organizations and participants | | 2 298 646 | 2 251 681 |
| Benefit payments | | (2 598 579) | (2 345 701) |
| Net transfer (to)/from other plans | | 3 598 | 1 641 |
| Administrative expenses paid | | (59 520) | (78 828) |
| Other payments, net | | (649) | (1 197) |
| **Net cash used by operating activities** | | **(356 504)** | **(172 404)** |
| **Net increase/(decrease) in cash and cash equivalents** | | 73 358 | (521 228) |
| **Cash and cash equivalents at the beginning of year** | 4 | 1 488 132 | 2 110 884 |
| **Exchange gains/(losses) on cash and cash equivalents** | | 1 032 | (101 524) |
| **Cash and cash equivalents at the end of year** | 4 | **1 562 522** | **1 488 132** |

## United Nations Joint Staff Pension Fund

### IV. Statement of comparison of budget and actual amounts on a comparable basis in relation to administrative expenses for the year ended 31 December 2016

(Thousands of United States dollars)

| | *Initial appropriation* | | | *Actuals on a comparable basis* | | | *Variance* | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *2016* | | | *2016* | | | | | | |
| | *Pension Fund* | *United Nations* | *Total* | *Pension Fund* | *United Nations* | *Total* | *Pension Fund* | *United Nations* | *Total* | *Percentage* |
| **A. Fund secretariat administrative expenses** | | | | | | | | | | |
| **Established posts** | 15 895.7 | 7 118.3 | 23 014.0 | 14 287.3 | 6 232.3 | 20 519.6 | (1 608.4) | (886.0) | (2 494.4) | (11) |
| **Other staff costs** | 3 502.4 | 141.6 | 3 644.0 | 4 193.2 | 250.3 | 4 443.5 | 690.8 | 108.7 | 799.5 | 22 |
| **Consultants** | 312.7 | – | 312.7 | 166.1 | 0.8 | 166.9 | (146.6) | 0.8 | (145.8) | (47) |
| **Travel of staff** | 502.0 | – | 502.0 | 369.4 | 7.2 | 376.6 | (132.6) | 7.2 | (125.4) | (25) |
| United Nations International Computing Centre | 3 744.6 | 747.4 | 4 492.0 | 4 243.9 | 973.1 | 5 217.0 | 499.3 | 225.7 | 725.0 | 16 |
| Contractual services | 3 614.5 | 485.9 | 4 100.4 | 2 022.2 | 176.2 | 2 198.4 | (1 592.3) | (309.7) | (1 902.0) | (46) |
| **Contractual services**[a] | 7 359.1 | 1 233.3 | 8 592.4 | 6 266.1 | 1 149.3 | 7 415.4 | (1 093.0) | (84.0) | (1 177.0) | (14) |
| **Hospitality** | 3.1 | – | 3.1 | – | – | – | (3.1) | – | (3.1) | (100) |
| **General operating expenses**[a] | 6 675.7 | 1 840.3 | 8 516.0 | 4 455.9 | 1 522.9 | 5 978.8 | (2 219.8) | (317.4) | (2 537.2) | (30) |
| **Supplies and materials** | 63.5 | 31.8 | 95.3 | 16.6 | 4.9 | 21.5 | (46.9) | (26.9) | (73.8) | (77) |
| **Furniture and equipment** | 751.9 | 340.1 | 1 092.0 | 123.0 | 13.4 | 136.4 | (628.9) | (326.7) | (955.6) | (88) |
| **Total** | **35 066.1** | **10 705.4** | **45 771.5** | **29 877.6** | **9 181.1** | **39 058.7** | **(5 188.5)** | **(1 524.3)** | **(6 712.8)** | **(15)** |

## United Nations Joint Staff Pension Fund

### IV. Statement of comparison of budget and actual amounts on a comparable basis in relation to administrative expenses for the year ended 31 December 2016 (continued)

(Thousands of United States dollars)

| | *Initial appropriation* | | | *Actuals on a comparable basis* | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *2016* | | | *2016* | | | *Variance* | | | |
| | *Pension Fund* | *United Nations* | *Total* | *Pension Fund* | *United Nations* | *Total* | *Pension Fund* | *United Nations* | *Total* | *Percentage* |
| **B. Investment administrative expenses** | | | | | | | | | | |
| **Established posts** | 12 875.7 | – | 12 875.7 | 10 409.5 | – | 10 409.5 | (2 466.2) | – | (2 466.2) | (19) |
| **Other staff costs** | 1 459.6 | – | 1 459.6 | 362.5 | – | 362.5 | (1 097.1) | – | (1 097.1) | (75) |
| **Consultants** | 478.3 | – | 478.3 | 148.9 | – | 148.9 | (329.4) | – | (329.4) | (69) |
| **Travel of staff** | 885.4 | – | 885.4 | 301.9 | – | 301.9 | (583.5) | – | (583.5) | (66) |
| **Travel of representatives** | 341.3 | – | 341.3 | 126.2 | – | 126.2 | (215.1) | – | (215.1) | (63) |
| External legal consultants | 1 744.8 | – | 1 744.8 | 621.3 | – | 621.3 | (1 123.5) | – | (1 123.5) | (64) |
| Investment advisory services | 4 297.6 | – | 4 297.6 | 2 475.8 | – | 2 475.8 | (1 821.8) | – | (1 821.8) | (42) |
| Custodial, electronic data processing and other services | 15 715.1 | | 15 715.1 | 8 444.8 | | 8 444.8 | (7 270.3) | | (7 270.3) | (46) |
| **Contractual services**[a] | 21 757.5 | – | 21 757.5 | 11 541.9 | – | 11 541.9 | (10 215.6) | – | (10 215.6) | (47) |
| **Hospitality** | 14.3 | – | 14.3 | 0.4 | – | 0.4 | (13.9) | – | (13.9) | (97) |
| **General operating expenses**[b] | 3 663.6 | – | 3 663.6 | 3 900.8 | – | 3 900.8 | 237.2 | – | 237.2 | 6 |
| **Supplies and materials** | 126.7 | – | 126.7 | 33.6 | – | 33.6 | (93.1) | – | (93.1) | (73) |
| **Furniture and equipment** | 832.9 | – | 832.9 | 146.1 | – | 146.1 | (686.8) | – | (686.8) | (82) |
| **Total** | **42 435.3** | – | **42 435.3** | **26 971.8** | – | **26 971.8** | **(15 463.5)** | – | **(15 463.5)** | **(36)** |

## United Nations Joint Staff Pension Fund

### IV. Statement of comparison of budget and actual amounts on a comparable basis in relation to administrative expenses for the year ended 31 December 2016 (continued)

(Thousands of United States dollars)

| | *Initial appropriation* | | | *Actuals on a comparable basis* | | | *Variance* | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *2016* | | | *2016* | | | | | | |
| | *Pension Fund* | *United Nations* | *Total* | *Pension Fund* | *United Nations* | *Total* | *Pension Fund* | *United Nations* | *Total* | *Percentage* |
| **C. Audit expenses** | | | | | | | | | | |
| External audit | 327.7 | 65.5 | 393.2 | 327.6 | 65.5 | 393.1 | (0.1) | – | (0.1) | 0 |
| Internal audit | 901.9 | 180.4 | 1 082.3 | 768.7 | 151.6 | 920.3 | (133.2) | (28.8) | (162.0) | (15) |
| **Total** | **1 229.6** | **245.9** | **1 475.5** | **1 096.3** | **217.1** | **1 313.4** | **(133.3)** | **(28.8)** | **(162.1)** | **(11)** |
| **D. Board expenses** | 476.7 | – | 476.7 | 417.0 | – | 417.0 | (59.7) | – | (59.7) | (13) |
| **Total administrative expenses** | **79 207.7** | **10 951.3** | **90 159.0** | **58 362.7** | **9 398.2** | **67 760.9** | **(20 845.0)** | **(1 553.1)** | **(22 398.1)** | **(25)** |

The purpose of the statement of comparison of budget and actual amounts is to compare budget to actual amounts on a comparable basis, i.e. actual amounts on the same basis as the budget. As the Pension Fund's budget is prepared on a modified cash basis and the actuals on a comparable basis are consequently also on a modified cash basis, the total for actual costs on a comparable basis does not agree with the administrative expenses shown in the statement of changes in net assets as that statement is prepared on an accrual basis. A reconciliation of the differences is provided in note 22.2.

[a] For presentation purposes, training resources budgeted under other staff costs are moved to contractual services in line with expenditure recording in Umoja ($0.3 million each in Fund secretariat and Investment Management Division).

[b] Includes rental and maintenance of premises and equipment, bank charges and other operating expenses.

**United Nations Joint Staff Pension Fund**

**IV. Statement of comparison of budget and actual amounts on a comparable basis in relation to administrative expenses for the year ended 31 December 2016** (continued)

*Investment administrative expenses*

*Posts*. The underexpenditure is attributable to the delayed recruitment or onboarding of staff, as well as the processing time for the reclassification of posts.

*Other staff costs*. The underexpenditure is attributable primarily to a decrease in actual expenditure with respect to general temporary assistance compared with the budget amounts owing to the difficulty of recruiting suitable candidates and obtaining agreement to release selected candidates.

*Consultants*. The underexpenditure is attributable primarily to the consultancy services for accounting and the target operating model, which will be finalized in the second year of the biennium, and the postponement of data management and technical writer consultancy services awaiting the outcome of the target operating model study.

*Travel*. The underexpenditure is attributable primarily to a decrease in travel of representatives owing to a lower than anticipated number of members attending the Investments Committee meetings; and lower than anticipated expenditure for travel of staff owing largely to the fact that, apart from ensuring business continuity and work priorities, the Investment Management Division is still moving towards full staff complement, and is taking advantage of increasingly cost-efficient technological advances in information dissemination and interconnectivity.

*Contractual services*. The underexpenditure in advisory services, custodial services and external legal consultants is due to restructuring and reduction of non-discretionary advisory services, a decrease in costs for custodial services and less than anticipated costs of legal services. The underexpenditure in electronic data processing services is primarily a result of the postponement of several business application acquisitions until the completion of the target operating model study. The underexpenditure in training is attributable primarily to the fact that the Investment Management Division is still moving towards a full complement of staff, and therefore existing staff members would temporarily have to cover a larger scope of duties.

*Hospitality*. The underexpenditure is attributable to continued efforts to minimize hospitality costs.

*Supplies, furniture and equipment*. The underexpenditure is attributable primarily to lower than anticipated expenditure for the acquisition of software and equipment owing to the decision to implement some information technology-related projects and the acquisition and replacement of software and equipment in the second year of the biennium.

**United Nations Joint Staff Pension Fund**

**Notes to the financial statements**

**Note 1**
**Description of the plan**

1. The following is a brief description of the United Nations Joint Staff Pension Fund. The Regulations and Administrative Rules are available from the Fund's website (www.unjspf.org).

### 1.1 General

2. The Pension Fund was established by the General Assembly in 1949 to provide retirement, death, disability and related benefits for staff of the United Nations and the other international organizations admitted to membership in the Fund. The Fund is a multiple employer, defined benefit plan. There are currently 23 member organizations participating in the Fund. All participating organizations and employees contribute to the Fund on the basis of pensionable remuneration. The contribution rate is a fixed rate of 7.9 per cent for participants and 15.8 per cent for employers (see also note 3.5).

3. The Fund is governed by a Pension Board made up of: (a) 12 members appointed by the United Nations Staff Pension Committee, four of whom are elected by the General Assembly, four from those appointed by the Secretary-General and four from those elected by the participants in service in the United Nations; and (b) 21 members appointed by the staff pension committees of the other member organizations in accordance with the rules of procedure of the Fund, seven of whom are chosen by the bodies of the member organizations corresponding to the General Assembly, seven from those appointed by the chief administrative officers of the member organizations and seven from those chosen by the participants in service.

### 1.2 Administration of the Fund

4. The Fund is administered by the United Nations Joint Staff Pension Board, a staff pension committee for each member organization and a secretariat to the Board and to each such committee.

5. The Chief Executive Officer of the Fund, who also serves as Secretary of the Pension Board, is appointed by the Secretary-General on the recommendation of the Pension Board.

6. The Chief Executive Officer is responsible for the administration of the Pension Fund and for the observance, by all concerned, of the Regulations, Rules and Pension Adjustment System of the Fund. This includes responsibility for the establishment of policy; the administration of the Fund's operations and the overall supervision of its staff; the responsibility for the organization, servicing and participation of the Fund secretariat in the meetings of the Pension Board, its Standing Committee, the Audit Committee, the Committee of Actuaries, the Assets and Liabilities Monitoring Committee and other related bodies; the responsibility for representing the Board at meetings of the Fifth Committee of the General Assembly, the Advisory Committee on Administrative and Budgetary Questions, the International Civil Service Commission and any other pertinent bodies; and serving as Secretary of the United Nations Staff Pension Committee. The Chief Executive Officer is responsible for providing a range of administrative functions to support the Investment Management Division.

7. The investment of the assets of the Fund shall be decided upon by the Secretary-General after consultation with the Investments Committee and in the light of observations and suggestions made from time to time by the Pension Board on the investments policy. The Secretary-General has delegated his authority and responsibility to act on his behalf in all matters involving his fiduciary duties related to the investment of the assets of the Fund to the Representative of the Secretary-General for the investment of the assets of the Fund. The Representative shall arrange for the maintenance of detailed accounts of all investments and other transactions relating to the Fund, which shall be open to examination by the Pension Board.

8. The Chief Financial Officer, who reports to the Chief Executive Officer and to the Representative of the Secretary-General in their respective substantive responsibilities, is responsible for formulating financial policy for the Fund, reviewing budgetary, financial and accounting operations of the Fund and ensuring that an adequate financial control environment is in place to protect the Fund's resources and to guarantee the quality and reliability of financial reporting. In addition, the Chief Financial Officer is responsible for setting the rules for the collection, from the different information systems and areas of the Fund, of the financial and accounting data necessary for the preparation of the Fund's financial statements; the Chief Financial Officer has full access to such systems and data. The Chief Financial Officer ensures that the financial statements are in compliance with the Regulations and Rules of the Fund, the accounting standards adopted by the Fund and the decisions of the Pension Board and the General Assembly, and also certifies the financial statements.

### 1.3 Participation in the Fund

9. Members of the staff of each of the 23 member organizations of the Fund become participants in the Fund upon commencing employment under an appointment for six months or longer, or upon completion of six months of service without an interruption of more than 30 days. As at 31 December 2016, the Fund had active contributors (participants) from member organizations/agencies including the United Nations Secretariat, the United Nations Children's Fund, the United Nations Development Programme and the Office of the United Nations High Commissioner for Refugees, as well as the various specialized agencies such as the World Health Organization, the International Labour Organization, the International Atomic Energy Agency, the International Civil Aviation Organization and the United Nations Educational, Scientific and Cultural Organization (see annex to the present notes for a complete list of member organizations). There are currently periodic benefits paid to individuals in some 190 countries (see annex to the present notes). The total annual pension expenses are around $2.5 billion and are paid in 15 different currencies.

### 1.4 Operation of the Fund

10. Participant and beneficiary processing and queries are handled by the operations sections/units of the Fund, at offices located in New York and Geneva. All of the accounting for operations is handled in New York by a centralized Financial Services Section, which also manages receipt of monthly contributions from member organizations and the payments of the monthly pension payroll.

11. The Representative of the Secretary-General is assisted by the staff of the Investment Management Division where investments are actively traded and processed and investment transactions are reconciled and accounted for.

### 1.5 Actuarial valuation of the Fund

12. Article 12 of the Regulations of the Fund (see JSPB/G.4/Rev.21) provides that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years. The Fund is performing actuarial valuations every two years and intends to continue doing so in the future. However, an exception has been made for the year 2015. Further details to this exception are provided in note 19. Article 12 further provides that the actuarial report shall state the assumptions on which the calculations are based, describe the methods of valuation used and state the results, as well as the recommendations, if any, for appropriate action. See note 19 for the most recent summary of the actuarial situation of the Fund.

### 1.6 Retirement benefit

13. Any participant who has five years of contributory service receives, upon separation at or after normal retirement age, a retirement benefit payable for the remainder of his or her life. "Normal retirement age" means age 60 for a participant whose service commenced prior to 1 January 1990, age 62 for a participant whose service commenced or recommenced on or after 1 January 1990 and age 65 for a participant whose service commenced or recommenced on or after 1 January 2014.

14. The standard annual rate of retirement benefit for a participant who entered the Fund on or after 1 January 1983 is the sum of:

(a) 1.5 per cent of final average remuneration multiplied by the first five years of contributory service;

(b) 1.75 per cent of final average remuneration multiplied by the next five years of contributory service;

(c) 2 per cent of final average remuneration multiplied by the next 25 years of contributory service;

(d) The years of contributory service in excess of 35 and performed as from 1 July 1995, by 1 per cent of the final average remuneration, subject to a maximum total accumulation rate of 70 per cent.

15. The standard annual rate of retirement benefit for a participant who entered the Fund prior to 1 January 1983 is 2 per cent of final average remuneration multiplied by contributory service not exceeding 30 years, plus 1 per cent of final average remuneration multiplied by such service in excess of 30 years, not exceeding 10 years.

16. The maximum benefit to participants, subject to the terms specified in the Regulations and Rules of the Fund, is the greater of 60 per cent of pensionable remuneration at the date of separation or the maximum benefit that would be payable, at that date, to a participant at the D-2 level (who has been at the top step for the preceding five years).

17. The retirement benefit shall, however, be payable at the minimum annual rate obtained by multiplying the years of the participant's contributory service, not exceeding 10, by the smaller of $1,034.96 (effective 1 April 2014, subject to subsequent adjustments in accordance with the movement of the United States of America consumer price index (CPI) under the pension adjustment system) or one thirtieth of the final average remuneration.

18. The annual rate of the retirement benefit shall, nevertheless, not be less, when no other benefit is payable on account of the participant, than the smaller of $1,646.16 (effective 1 April 2014, subject to subsequent adjustments in accordance with the movement of the United States CPI under the pension adjustment system) or the final average remuneration of the participant.

19. "Final average remuneration" means the average annual pensionable remuneration of a participant during the 36 completed months of highest pensionable remuneration within the last five years of contributory service.

20. A participant may, except in the case where a minimum benefit is payable and he or she does not waive the rights thereto, elect to receive: (a) if the retirement benefit is $300 per annum or more, a lump sum not greater than the larger of one third of the actuarial equivalent of the retirement benefit (not exceeding the maximum amount payable to a participant then retiring at normal retirement age, with final average remuneration equal to the pensionable remuneration for the top step of the P-5 level), or the amount of the participant's own contributions at retirement, and the participant's retirement benefit is then reduced accordingly; or (b) if the participant's retirement benefit is less than $1,000 per annum, the lump sum actuarial equivalent of the full retirement benefit, including the prospective spouse's benefit, if any, if the participant so elects.

*Early retirement*

21. An early retirement benefit is payable to a participant whose age on separation is at least 55 (58 for a participant whose participation commenced on or after 1 January 2014) but less than the normal retirement age and who has five years or more of contributory service at separation.

22. The early retirement benefit for a participant whose participation commenced prior to 1 January 2014 is payable at the standard annual rate for a retirement benefit reduced by 6 per cent for each year between the retirement date and normal retirement age, except that: (a) if the participant has completed 25 but less than 30 years of contributory service at the date of retirement, the part of the benefit for service before 1 January 1985 is reduced by 2 per cent a year, and the remaining part of the benefit is reduced by 3 per cent a year; or (b) if the participant has completed 30 or more years of contributory service at the date of retirement, the benefit is reduced by 1 per cent a year, provided however that the rate in (a) or (b) applies to no more than five years. The methodology of calculation of the early retirement benefits for employees whose participation began on or after 1 January 2014 is detailed in article 29 of the Regulations of the Fund.

23. The early retiree may elect to receive a lump sum on the same terms as for a retirement benefit.

*Separation from service prior to eligibility for early retirement*

24. A deferred retirement benefit is payable to a participant whose age on separation is less than normal retirement age and who has five years or more of contributory service at separation. The deferred retirement benefit is payable at the standard rate for a retirement benefit and commences at normal retirement age. The participant may elect to have the benefit commence at any time once the participant becomes eligible to receive an early retirement benefit from the Fund on the same terms as for an early retirement benefit.

25. A withdrawal settlement is payable to a participant separating from service before normal retirement age or on or after normal retirement age if the participant is not entitled to a future retirement benefit. The participant receives his or her own contributions increased by 10 per cent for each year of contributory service in excess of five years, to a maximum increase of 100 per cent.

### 1.7 Disability benefit

26. A disability benefit is payable to a participant incapacitated for further service for a period likely to be permanent or of long duration.

27. The disability benefit is payable at the standard or minimum annual rate for a retirement benefit if the participant is at least normal retirement age at disability. If the participant is under normal retirement age, it is payable at the rate of the retirement benefit to which the participant would have been entitled if he or she had remained in service until normal retirement age and his or her final average remuneration had remained unchanged.

28. The annual rate of the benefit shall, notwithstanding the above, not be less, when no other benefit is payable on account of the participant, than the smaller of $2,741.04 (effective 1 April 2014, subject to subsequent adjustments in accordance with the movement of the United States CPI under the pension adjustment system) or the final average remuneration of the participant.

### 1.8 Survivor benefit

29. A benefit is payable to a surviving spouse of a participant who was entitled to a retirement, early retirement, deferred retirement or disability benefit at the date of his or her death, or who died in service if they were married at the time of separation and remained married at the time of death. Certain limitations on eligibility apply in cases of divorced surviving spouses. The surviving spouse's benefit is generally payable at half the amount of the participant's retirement or disability benefit and is subject to certain minimum levels.

### 1.9 Child benefit

30. A child benefit is payable to each child under the age of 21 of a participant who is entitled to a retirement, early retirement or disability benefit or who has died in service, while the child remains under 21. The benefit may also be payable in certain circumstances to a child who is over the age of 21, such as when the child is found to have been incapacitated for substantial gainful employment. The child benefit for each child is generally one third of any retirement or disability benefit due to a participant or that would have been due in the case of a participant who died in service, subject to certain minimum amounts and also limited in terms of maximum amount. In addition, there are certain total maximum amounts that apply in cases of multiple children of the same participant.

### 1.10 Other benefits

31. Other benefits include the secondary dependant benefit and the residual settlement benefit. A full description of those benefits is available in the Regulations and Administrative Rules of the Fund.

### 1.11 Pension adjustment system

32. The provisions of the Fund's pension adjustment system provide for periodic cost-of-living adjustments in benefits. In addition, for participants who retire in a country whose currency is not the United States dollar, the current pension adjustment system is intended to ensure that, subject to certain minimum and maximum provisions, a periodic benefit never falls below the "real" value of its United States dollar amount, as determined under the Regulations, Rules and Pension Adjustment System of the Fund, and preserves its purchasing power as initially established in the currency of the recipient's country of residence. This is achieved by establishing a dollar base amount and a local currency base amount (the two-track system).

33. The "real" value of a United States dollar amount is that amount adjusted over time for movements of the United States CPI, while the purchasing power of a recipient's benefit, once established in the local currency, is preserved by adjusting it to follow movements of CPI in his or her country of residence.

### 1.12 Funding policy

34. As a condition of participation in the Fund, participants are required to contribute 7.9 per cent of their pensionable remuneration to the plan. They earn interest at a rate of 3.25 per cent per year in accordance with article 11 (c) of the Regulations of the Fund. The participants' contributions for the years ended 31 December 2016 and 31 December 2015 were $757 million and $751 million, respectively. The contribution figures do not include interest on the contributions.

35. The funding policy is for member organizations to make contributions on an estimated monthly basis and then to reconcile these estimated amounts in an annual year-end process. The contributions by member organizations are also expressed as a percentage of the pensionable remuneration of the participants as defined in article 51 of the Regulations of the Fund. The contribution rate for member organizations is currently 15.8 per cent; these contributions to the Fund totalled $1,506 million and $1,496 million during calendar years 2016 and 2015, respectively. When combined with the contributions by participants and expected investment returns, total funding is estimated to be sufficient to provide for the benefits of all employees by the time they retire.

36. The assets of the Fund are derived from:

(a) The contributions of the participants;

(b) The contributions of the member organizations;

(c) The yield from the investments of the Fund;

(d) Deficiency payments, if any, under article 26 of the Regulations;

(e) Receipts from any other source.

### 1.13 Plan termination terms

37. Membership in the Fund may be terminated by decision of the General Assembly, upon the affirmative recommendation of the Board, following application for termination by a member organization or continued default by an organization in its obligations under the Regulations.

38. In the event of such termination, a proportionate share of the total assets of the Fund at the date of termination shall be paid to the former member organization for the exclusive benefit of its staff who were participants in the Fund on such date, pursuant to an arrangement mutually agreed between such organization and the Board.

39. The amount of the proportionate share shall be determined by the Board after an actuarial valuation of the assets and liabilities of the Fund.

40. In the event that an actuarial valuation of the Fund shows that its assets may not be sufficient to meet its liabilities under the Regulations, there shall be paid into the Fund by each member organization the sum necessary to make good the deficiency.

41. Each member organization shall contribute to the sum necessary to make good the deficiency an amount proportionate to the total contributions which each paid under article 25 during the three years preceding the valuation date.

42. The contribution of an organization admitted to membership less than three years prior to the valuation date shall be determined by the Board.

### 1.14 Changes in funding policy and plan termination terms during the reporting period

43. There were no changes in the funding policy or plan termination terms during the reporting period.

## Note 2
## General information

### 2.1 Basis of presentation

44. The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with the International Public Sector Accounting Standards (IPSAS) as issued by the International Public Sector Accounting Standards Board. The Pension Fund adopted IPSAS as of 1 January 2012. This also specifically included the adoption of International Accounting Standard (IAS) 26, Accounting and reporting by retirement benefit plans, of the International Financial Reporting Standards. While IAS 26 provides accounting guidance, it also offers direction on the presentation of financial statements as it requires the presentation of a statement of net assets available for benefits and a statement of changes in net assets available for benefits. As the Fund has incorporated the guidance in IAS 26 into its financial policies, the presentation of its financial statements is based on this guidance. On a voluntary basis and at the request of the Board of Auditors, the Fund has also presented cash flow statements on a comparative basis in accordance with IPSAS 2, Cash flow statements, since 2015. Additional information is presented where requested by IPSAS standards. For instance, as required by IPSAS 24, Presentation of budget information in financial statements, the Fund has included in its financial statements a comparison of budget and actual amounts on a comparable basis and a reconciliation between the actual amounts on a comparable basis and the statement of changes in net assets available for benefits (see note 22). While IPSAS 24 states that the actual cost on a comparable basis should be reconciled to the cash flows from operating, investing and financing activities as presented in the cash flow statement, management has decided to reconcile these amounts to the administrative expenses recognized in the statement of changes in net assets. This is due to the fact that the Fund's budget is limited to the administrative expenses incurred in a biennium.

45. The financial statements are prepared on an annual basis. The financial statements are presented in United States dollars and all values are rounded to the nearest thousand United States dollars except where otherwise indicated.

### 2.2 Significant standards, interpretations and amendments during the year

46. In January 2015, the IPSAS Board issued IPSAS 35, Consolidated financial statements. IPSAS 35 supersedes the requirements in IPSAS 6, which addressed accounting for consolidated financial statements. IPSAS 35 establishes a single control model that applies to all entities, including special purpose entities. In addition, IPSAS 35 includes an exception from consolidation for entities that meet the definition of an investment entity and requires such entities to recognize all investments at fair value through profit or loss. The standard is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted. The Fund adopted this standard at an early stage, effective from 1 January 2015. As at 31 December 2016, the Fund did not have control over any of its investment portfolio; accordingly, adoption of this standard did not have any impact on the Fund's financial statements.

47. In January 2015, the IPSAS Board issued IPSAS 36, Investments in associates and joint ventures, and IPSAS 37, Joint arrangements. IPSAS 36 explains the application of the equity method of accounting, which is used to account for investments in associates and joint ventures. IPSAS 37 establishes requirements for classifying joint arrangements and accounting for those different types of joint arrangements. The standards are effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted. The Fund adopted these standards at an early stage, effective from 1 January 2015. As at 31 December 2016, the Fund did not have any joint control or joint arrangement in or significant influence over any of its investment portfolio; accordingly, adoption of these standards did not have any impact on the Fund's financial statements.

48. In January 2015, the IPSAS Board issued IPSAS 38, Disclosure of interests in other entities. IPSAS 38 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IPSAS 38 are more comprehensive than the previously existing disclosure requirements. The standard is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted. The Fund adopted this standard at an early stage, effective from 1 January 2015. As at 31 December 2016, the Fund did not have controlling interest or joint control in or significant influence over any of its investment portfolio; accordingly, there are no additional disclosure requirements on adoption of this standard.

49. In January 2015, the IPSAS Board issued IPSAS 34, Separate financial statements. IPSAS 34 prescribes accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements. The standard is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted. The Fund adopted this standard at an early stage, effective from 1 January 2015. As at 31 December 2016, the Fund did not prepare separate financial statements; accordingly, there are no additional disclosure requirements on adoption of this standard.

50. In July 2016, the IPSAS Board issued IPSAS 39, Employee benefits. IPSAS 39 supersedes the requirements in IPSAS 25, Employee benefits. The significant

changes introduced by IPSAS 39 compared with IPSAS 25 are: the removal of an option that allowed an entity to defer the recognition of changes in the net defined benefit liability (the "corridor approach"); the introduction of the net interest approach for defined benefit plans; and the amendment of certain disclosure requirements for defined benefit plans and multiple employer plans. The standard is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Fund is currently evaluating the impact of the adoption of this accounting standard on its financial statements.

51. Other accounting standards and amendments to the existing standards that have been issued by the IPSAS Board are either not expected to have any impact or have immaterial impact on the Fund's financial statements.

### 2.3 Other general information

52. The Fund compiles its financial statements with data collected from three main areas. For operational activities (contributions and payment of benefits), the Fund maintains its own records and systems. For investment activities, the Fund receives a monthly general ledger feed from the independent master record keeper comprising information collected and reconciled from source data provided by the Investment Management Division, global custodians and fund managers. For its administrative expenses, the Fund utilizes systems of the United Nations (Umoja) to record and compile its administrative expense activity. Umoja provides information on a modified cash basis, which is subsequently restated to a full accrual basis by the Fund. Some of the administrative expenses of the Fund, including costs associated with the administrative tasks of the United Nations Staff Pension Committee performed by the Fund on behalf of the United Nations, are reimbursed by the United Nations under the terms of a cost-sharing arrangement. Consequently, the Fund has decided to reflect the reimbursement by the United Nations as a reduction of its administrative expenses, subsequently converted in full accrual accounting in accordance with IPSAS requirements.

## Note 3
## Significant accounting policies

### 3.1 Cash and cash equivalents

53. Cash and cash equivalents are held at nominal value and include cash on hand, cash held with external managers and short-term, highly liquid time deposits held with financial institutions with maturities of three months or less from the date of acquisition.

### 3.2 Investments

#### *3.2.1 Classification of investments*

54. All investments of the Fund are designated at fair value through surplus and deficit. Consequently, the Fund's investments are carried and reported at fair value on the statement of net assets available for benefits, with changes in fair value recognized in the statement of changes in net assets available for benefits. Purchases and sales of securities are recorded on a trade date basis. The designation and classification of the investments are carried out at initial recognition and reassessed at each reporting date.

55. Any transaction costs arising as part of an investment trade designated at fair value are expensed and recognized in the statement of changes in net assets.

56. The Fund classifies its investments into the following categories:

- Short-term investments (including fixed income investments maturing more than three months but less than one year from date of acquisition)
- Equities (including exchange traded funds, common and preferred stocks, stapled securities and publicly traded real estate investment trusts)
- Fixed income (including fixed income investments maturing more than one year from acquisition date)
- Real assets (including investments in funds where the underlying assets are real assets such as real properties, infrastructure assets, timber and agriculture)
- Alternative and other investments (including investments in private equity funds and commodity funds, and investments classified as hedge funds)

*3.2.2 Valuation of financial instruments*

57. The Fund uses the established and documented process of its independent master record keeper for determining fair values, which is reviewed and validated by the Fund at the reporting date. Fair value is based on quoted market prices where available. If the fair market value is not available, valuation techniques are used.

58. Investments in certain commingled funds and private equity and private real estate investment funds are not quoted in an active market and therefore may not have a readily determinable fair market value. However, the fund managers generally report investments in the funds on a fair value basis. Therefore, the Fund determines fair value using the net asset value information as reported by the investee fund managers in the latest available quarterly capital account statements. Where the fourth quarter capital account statements or estimated net asset values are not received by the time the Fund's financial statements are prepared, the fair value is calculated on the basis of the third quarter net asset value reported by the investee fund managers adjusted by any cash flows in the fourth quarter. For financial assets and liabilities not designated at fair value through surplus and deficit, the carrying value approximates fair value.

*Interest and dividend income*

59. Interest income is recognized on a time-proportionate basis. It includes interest income from cash and cash equivalents and short-term and fixed income investments.

60. Dividend income is recognized on the ex-dividend date when the right to receive payment is established.

*3.2.3 Income from real assets and alternative investments*

61. Income distributed from unitized funds is treated as income in the period in which they are earned.

*3.2.4 Receivable payable from to investments traded*

62. Amounts due from and to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet settled or

delivered on the date of the statement of net assets available for benefits. These amounts are recognized at the amount expected to be paid or received to settle the balance. Distributions from real assets and alternative fund investments declared but not received prior to year-end are also included under receivables from investments traded, to the extent the year-end net asset value of the fund that declares a distribution already includes the distribution to be made.

63. Impairment of receivables from investments traded is recorded when there is objective evidence that the Fund will not be able to collect all amounts due from the relevant broker. Significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganization and default in payments are considered indicators that the receivable from investments traded is impaired.

### 3.3 Tax status and withholding tax receivables

64. The Fund is exempt from national taxation of Member States on the Fund's direct investments in accordance with Article 105 of the Charter of the United Nations and with article II, section 7 (a), of the Convention on the Privileges and Immunities of the United Nations. While some Member States grant relief at source for the Fund's income from investments, other countries continue to withhold taxes at the time dividends are paid. In these instances, the Fund's custodians file claims to the governmental taxing authorities for refunds on behalf of the Fund. In Brazil, some provinces in China and for certain years in Greece, Sweden and Turkey, there is no formally established reclamation mechanism in place, and in these cases the Fund's custodians have thus far been unable to file and/or reclaim the taxes withheld. Despite the fact that these Member States have confirmed the Fund's tax exempt status, the taxes withheld from direct investments in these countries are accrued but continue to be fully provided for in 2016.

65. The Fund measures its withholding tax receivable at the amount deemed to be recoverable.

66. For the purposes of disclosure, the tax balances are recorded under withholding tax receivable in the statement of net assets available for benefits. Any amount considered to be unrecoverable is recognized in the statement of changes in net assets available for benefits and is included under withholding tax expense.

### 3.4 Critical accounting estimates

67. Management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are outlined below.

*Fair value of financial instruments*

68. The Fund may hold financial instruments that are not quoted in active markets. The fair value of such instruments is determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed and modified as required. Valuation models are calibrated by back testing to actual transactions to ensure that outputs are reliable.

69. Fair value of financial instruments not quoted in an active market may also be determined by the Fund using reputable pricing sources (such as pricing agencies)

or indicative prices from bond/debt market makers. Quotes by brokers as obtained from the pricing sources may be indicative and not executable or binding. The Fund exercises judgment on the quantity and quality of pricing sources used. Where no market data is available, the Fund may value financial instruments using internal valuation models, which are usually based on valuation methods and techniques generally recognized as standard within the industry.

70. Valuation models are created using observable data to the extent practicable. However, in areas such as credit risk (of both the Fund and the counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

71. The determination of what constitutes "observable" requires significant judgment by the Fund. The Fund considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

*Taxes*

72. Uncertainties exist with respect to the interpretation of complex tax regulations and changes in tax laws on withholding tax. Given the wide range of international investments, differences arising between the actual income and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax expense already recorded.

*Impairment*

73. The annual review to assess potential impairment is another area where the Fund exercises significant judgment.

*Bad debt provision for the Fund's non-investment-related receivables*

74. A provision is established to properly reflect the accurate position of the accounts receivable for all non-performing overpayments of pension benefits that are two years or older as of the respective year-end date of the financial statements.

*Actuarial assumptions*

75. The Fund uses actuarial methods for the disclosure of employee benefit liabilities. The related assumptions are disclosed in note 11 in respect of after-service health insurance and other employee benefits of the staff of the Fund. Note 19 contains information on assumptions used for the actuarial liability to the beneficiaries of the Fund.

### 3.5 Contributions

76. Contributions are recorded on an accrual basis. Participants and their employing member organizations are required to contribute to the Fund 7.9 per cent and 15.8 per cent, respectively, of the pensionable remuneration of the participants. Each month the Fund accrues a receivable amount for contributions expected. When contributions are actually received, the receivable is offset. Contributions are due to be paid by member organizations by the second business day of the month following

the month for which the contributions relate. The contributions vary on the basis of changes in the number of participants, changes in the distribution of participants, changes in pensionable remuneration rates as a result of cost-of-living increases determined by the International Civil Service Commission, and the yearly grade step increase to individual pensionable remuneration received by all participants.

### 3.6 Benefits

77. Payments of benefits, including withdrawal settlements, are recorded on an accrual basis. The right to a benefit is generally forfeited if, for two years (withdrawal settlement or residual settlement) or five years (retirement, early retirement, deferred retirement or disability benefit) after payment has been due, the beneficiary has failed to submit payment instructions or has failed or refused to accept payment.

### 3.7 Accounting for non-United States dollar denominated currency translations and balances

78. Non-United States dollar denominated currency transactions are translated using the spot exchange rate between the functional currency and the non-United States dollar denominated currency at the date of the transaction.

79. At each reporting date, non-United States dollar denominated monetary items are translated using the closing spot rate. The Fund applies the WM/Reuters company rates (primary source) and the Bloomberg and Thomson Reuters rates (secondary source) as the spot rates for investment activities, and the United Nations operational rate of exchange for non-investment activities. Exchange differences arising on the settlement of these monetary items or on translating these monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognized in the statement of changes in net assets available for benefits in the period in which they arise.

### 3.8 Leases

80. All of the Fund's leases are categorized as operating leases. An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under operating leases are recognized as an expense on a straight-line basis over the lease term.

### 3.9 Property, plant and equipment

81. Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment losses. All assets acquired for a cost of $20,000 and above are capitalized. The Fund reviews this threshold annually for reasonableness. The Fund owns no land or buildings.

82. Depreciation is provided for property, plant and equipment over their estimated useful life using the straight line-method. The estimated useful lives for property, plant and equipment classes are as follows:

| *Class* | *Estimated useful life, in years* |
|---|---|
| Computer equipment | 4 |
| Office equipment | 4 |
| Office furniture | 10 |
| Office fixtures and fittings | 7 |
| Audio/visual equipment | 7 |

83. Leasehold improvements are recognized as assets and valued at cost and are depreciated over the lesser of seven years or the lease term. Impairment reviews are undertaken if indicators of impairment exist.

### 3.10 Intangible assets

84. Intangible assets are capitalized if their cost exceeds the threshold of $20,000, except for internally developed software where the threshold is $50,000. The capitalized cost of internally developed software excludes costs related to research and maintenance. Intangible assets are stated at historical cost less accumulated amortization and any impairment losses. Amortization is recognized over the estimated useful life using the straight-line method. The estimated useful lives for intangible asset classes are as follows:

| *Class* | *Estimated useful life, in years* |
|---|---|
| Software acquired externally | 3 |
| Internally developed software | 6 |
| Licences and rights, copyrights and other intangible assets | Shorter of 3 years or the life of the asset |

### 3.11 Emergency fund

85. The appropriation is recorded when the authorization is approved by the General Assembly. Participants wishing to avail themselves of this benefit submit an application to the Fund. After review and authorization, approved amounts are paid to the participant. Payments are charged directly against the appropriation account, and any unexpended balance reverts to the Fund at the end of the year. Current expense for the year is reported in the statement of changes in net assets available for benefits.

### 3.12 Provisions and contingent liabilities

86. Provisions are made for future liabilities and charges where the Fund has a present legal or constructive obligation as a result of past events and it is probable that the Fund will be required to settle the obligation.

87. Other commitments that do not meet the recognition criteria for liabilities are disclosed in the notes to the financial statements as contingent liabilities when their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not wholly within the control of the Fund.

### 3.13 Employee benefits

88. Among certain short-term and other long-term benefits, the Fund provides its employees with certain post-employment benefits.

89. After-service health insurance, repatriation grants and death benefits are classified as defined benefit schemes and accounted for as such.

90. The employees of the Fund themselves participate in the Pension Fund. While the Fund is a defined benefit scheme, it has been classified as a multiple employer fund. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligations, plan assets and costs to individual organizations participating in the plan. The Fund, in line with the other participating organizations in the Fund, is not in a position to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes, and hence has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 25. The Fund's contributions to the plan during the financial period are recognized as expenses in the statement of financial performance.

### 3.14 Reconciliation of budget information

91. The Fund's budget is prepared on a modified cash basis and the financial statements on an accrual basis.

92. The General Assembly approves the biennial budget for the Fund's administrative expenses. Budgets may be subsequently amended by the Assembly or through the exercise of delegated authority.

93. As required by IPSAS 24, the statement of comparison of budget and actual amounts in relation to administrative expenses for the year ended 31 December 2016 provides a comparison of budget and actual amounts on a comparable basis. The comparison includes the original and final budget amounts, the actual amounts on the same basis as the corresponding budgetary amounts and an explanation of material differences (greater than +/-10 per cent) between the actual and budget amounts.

94. Note 22 provides a reconciliation of actual amounts presented on the same basis as the budget and actual amounts included in the IPSAS financial statements.

### 3.15 Related party transactions

95. Parties are considered to be related when one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

96. The following parties are considered related parties for the Pension Fund:

(a) Key management personnel: the Chief Executive Officer, the Representative of the Secretary-General, the Deputy Chief Executive Officer, the Director of the Investment Management Division and the Chief Financial Officer;

(b) The General Assembly;

(c) The 23 member organizations participating in the Fund;

(d) The United Nations International Computing Centre.

97. A summary of the relationship and transactions with the above parties is given in note 24.

### 3.16 Subsequent events

98. Any information that is received after the reporting period but before the financial statements are issued about conditions that existed at the date of the statement of net assets available for benefits is incorporated in the financial statements.

99. In addition, any event that occurs after the date of the statement of net assets available for benefits but before the financial statements are published that is material to the Fund are disclosed in the notes to the financial statements.

## Note 4
## Cash and cash equivalents

100. Cash and cash equivalents include:

(Thousands of United States dollars)

| | *31 December 2016* | *31 December 2015* |
|---|---|---|
| Cash at bank: Investment Management Division | 1 372 817 | 1 293 752 |
| Cash at bank: Fund secretariat | 153 812 | 142 534 |
| Cash held by external managers | 35 893 | 51 846 |
| **Total cash and cash equivalents** | **1 562 522** | **1 488 132** |

## Note 5
## Financial instruments by category

101. The following tables provide an overview of all financial instruments held by category as at 31 December 2016 and 31 December 2015.[9]

[9] Non-financial assets and liabilities other than employee benefits are excluded from the tables, as this analysis is required only for financial instruments.

(Thousands of United States dollars)

| | As at 31 December 2016 | | |
|---|---|---|---|
| | *Financial instruments at fair value* | *Loans and receivables* | *Other financial liabilities* |
| **Financial assets as indicated in the statement of net assets available for benefits** | | | |
| Cash and cash equivalents | 1 562 522 | – | – |
| Investments | | | |
| Short-term investments | 724 509 | – | – |
| Equities | 34 455 474 | – | – |
| Fixed income | 12 311 322 | – | – |
| Real assets | 3 796 144 | – | – |
| Alternative and other investments | 1 663 801 | – | – |
| Contributions receivable | – | 13 824 | – |
| Accrued income from investments | – | 139 311 | – |
| Receivable from investments traded | – | 15 124 | – |
| Withholding tax receivables | – | 10 501 | – |
| Other assets | – | 19 027 | – |
| **Total financial assets** | **54 513 772** | **197 787** | – |
| **Financial liabilities as indicated in the statement of net assets available for benefits** | | | |
| Benefits payable | – | – | 133 782 |
| Payable from investments traded | – | – | 8 138 |
| After-service health insurance and other employee benefit liabilities | – | – | 76 736 |
| Other accruals and liabilities | – | – | 18 987 |
| **Total financial liabilities** | – | – | **237 643** |

*Investments exceeding 5 per cent of net assets*

102. There were no investments representing 5 per cent or more of net assets available for benefits as at 31 December 2016.

103. There were no investments representing 5 per cent or more of equities and fixed income as at 31 December 2016. The Fund held a total of $202.8 million in one real estate fund as at 31 December 2016, which represented 5 per cent or more of the real assets category. The Fund also held investments of $489.8 million in five private equity funds, which represented 5 per cent or more of the alternative and other investments category.

(Thousands of United States dollars)

| | Restated as at 31 December 2015 | | |
|---|---|---|---|
| | *Financial instruments at fair value* | *Loans and receivables* | *Other financial liabilities* |
| **Financial assets as indicated in the statement of net assets available for benefits** | | | |
| Cash and cash equivalents | 1 488 132 | – | – |
| Investments | | | |
| Short-term investments | 534 952 | – | – |
| Equities | 32 501 344 | – | – |
| Fixed income | 12 485 103 | – | – |
| Real assets | 3 315 119 | – | – |
| Alternative and other investments | 1 865 629 | – | – |
| Contributions receivable | | 42 797 | – |
| Accrued income from investments | | 147 836 | – |
| Receivable from investments traded | | 16 396 | – |
| Withholding tax receivables | | 12 604 | – |
| Other assets | – | 20 904 | – |
| **Total financial assets** | **52 190 279** | **240 537** | – |
| **Financial liabilities as indicated in the statement of net assets available for benefits** | | | |
| Benefits payable | – | – | 226 421 |
| Payable from investments traded | – | – | 10 796 |
| After-service health insurance and other employee benefit liabilities | – | – | 70 358 |
| Other accruals and liabilities | – | – | 12 638 |
| **Total financial liabilities** | – | – | **320 213** |

*Investments exceeding 5 per cent of net assets*

104. There were no investments representing 5 per cent or more of net assets available for benefits as at 31 December 2015.

105. There were no investments representing 5 per cent or more of equities and fixed income as at 31 December 2015. The Fund held a total of $361.7 million in two real estate funds as at 31 December 2015, which represented 5 per cent or more of the real assets category. The Fund also held investments of $484.8 million classified as a hedge fund and $300.5 million in three private equity funds, which represented 5 per cent or more of the alternative and other investments category.

## Note 6
## Fair value measurement

106. IPSAS establishes a three-level fair value hierarchy under which financial instruments are categorized on the basis of the significance of inputs to the valuation

technique. Level 1 includes those securities where unadjusted quoted prices are available in active markets for identical assets or liabilities. Level 2 includes those securities where inputs other than quoted prices included within level 1 are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). Level 3 includes those securities where inputs for the asset or liability are not based on observable market data (that is, unobservable inputs). The level in the fair value hierarchy within which the fair value measurement is categorized is determined on the basis of the lowest level of information that is significant to the fair value measurement. If a fair value measurement of an investment uses observable inputs that require significant adjustment on the basis of unobservable inputs, that investment is classified as level 3.

107. Assessing the significance of a particular input to the fair value measurement of an investment in its entirety requires judgment, considering factors specific to the investment.

108. The following tables present the fair value hierarchy of the Fund's investments (by asset class) measured at fair value as at 31 December 2016 and 31 December 2015:

(Thousands of United States dollars)

*Hierarchy disclosure as at 31 December 2016*

| | *Level* | | | |
|---|---|---|---|---|
| | *1* | *2* | *3* | *Total* |
| **Short-term investments** | | | | |
| Government and agencies securities | – | 346 406 | – | 346 406 |
| Corporate bonds | – | 165 006 | 126 217 | 291 223 |
| Notes, deposits and commercial paper | – | 86 880 | – | 86 880 |
| **Total short-term investments** | **–** | **598 292** | **126 217** | **724 509** |
| **Equities** | | | | |
| Common and preferred stock | 31 366 431 | – | – | 31 366 431 |
| Funds — exchange traded funds | 2 646 766 | – | – | 2 646 766 |
| Real estate investment trusts | 240 075 | – | – | 240 075 |
| Funds — common stock | – | – | 158 361 | 158 361 |
| Stapled securities | 43 841 | – | – | 43 841 |
| **Total equities** | **34 297 113** | **–** | **158 361** | **34 455 474** |
| **Fixed income** | | | | |
| Government and agencies securities | – | 8 837 924 | – | 8 837 924 |
| Corporate bonds | – | 2 789 955 | – | 2 789 955 |
| Municipal/provincial bonds | – | 626 113 | – | 626 113 |
| Commercial mortgage-backed | – | 10 628 | – | 10 628 |
| Funds — corporate bond | – | – | 46 702 | 46 702 |
| **Total fixed income** | **–** | **12 264 620** | **46 702** | **12 311 322** |

*Hierarchy disclosure as at 31 December 2016*

| | *Level* | | | |
|---|---|---|---|---|
| | *1* | *2* | *3* | *Total* |
| **Real assets** | | | | |
| Real estate funds | – | 239 698 | 3 407 072 | 3 646 770 |
| Infrastructure assets | – | – | 132 792 | 132 792 |
| Timberlands | – | – | 16 582 | 16 582 |
| **Total real assets** | **–** | **239 698** | **3 556 446** | **3 796 144** |
| **Alternative and other investments** | | | | |
| Hedge funds | – | – | – | – |
| Private equity | – | – | 1 547 504 | 1 547 504 |
| Commodity funds | – | – | 116 297 | 116 297 |
| **Total alternative and other investments** | **–** | **–** | **1 663 801** | **1 663 801** |
| **Total** | **34 297 113** | **13 102 610** | **5 551 527** | **52 951 250** |

(Thousands of United States dollars)

*Hierarchy disclosure as at 31 December 2015*

| | *Level* | | | |
|---|---|---|---|---|
| | *1* | *2* | *3* | *Total* |
| **Short-term investments** | | | | |
| Government and agencies securities | – | 217 295 | – | 217 295 |
| Corporate bonds | – | 267 673 | – | 267 673 |
| Notes, deposits and commercial paper | – | 49 984 | – | 49 984 |
| **Total short-term investments** | **–** | **534 952** | **–** | **534 952** |
| **Equities** | | | | |
| Common and preferred stock | 29 752 374 | – | – | 29 752 374 |
| Funds — exchange traded funds | 2 329 996 | – | – | 2 329 996 |
| Real estate investment trusts | 219 421 | – | – | 219 421 |
| Funds — common stock | – | – | 165 279 | 165 279 |
| Stapled securities | 34 274 | – | – | 34 274 |
| **Total equities** | **32 336 065** | **–** | **165 279** | **32 501 344** |
| **Fixed income** | | | | |
| Government and agencies securities | – | 8 071 274 | 49 569 | 8 120 843 |
| Corporate bonds | – | 3 646 668 | 15 648 | 3 662 316 |
| Municipal/provincial bonds | – | 537 704 | – | 537 704 |
| Commercial mortgage-backed | – | 120 090 | – | 120 090 |
| Funds — corporate bond | – | – | 44 150 | 44 150 |
| **Total fixed income** | **–** | **12 375 736** | **109 367** | **12 485 103** |

| | Level | | | |
|---|---|---|---|---|
| | 1 | 2 | 3 | Total |
| **Real assets** | | | | |
| Real estate funds | – | 187 160 | 3 001 137 | 3 188 297 |
| Infrastructure assets | – | – | 110 882 | 110 882 |
| Timberlands | – | – | 15 940 | 15 940 |
| **Total real assets** | **–** | **187 160** | **3 127 959** | **3 315 119** |
| **Alternative and other investments** | | | | |
| Hedge funds | – | 484 796 | 29 836 | 514 632 |
| Private equity | – | – | 1 249 337 | 1 249 337 |
| Commodity funds | – | – | 101 660 | 101 660 |
| **Total alternative and other investments** | **–** | **484 796** | **1 380 833** | **1 865 629** |
| **Total** | **32 336 065** | **13 582 644** | **4 783 438** | **50 702 147** |

*Short-term investments*

109. Corporate bonds and corporate bond funds amounting to $126.2 million as at 31 December 2016 (31 December 2015: zero) were considered to be level 3. Inputs for the value of those investments, while available from third-party sources, were not well-defined, readily observable market data. Consequently, the Fund has decided to classify such investments as level 3.

*Equities*

110. Common and preferred stocks, exchange-traded funds, real estate investment trusts and stapled securities were classified under level 1 if bid prices were available from institutional vendors.

111. Common stock funds and unit trust equity funds amounting to $158.4 million as at 31 December 2016 (31 December 2015: $165.3 million) were valued using a net asset value approach and hence classified under level 3.

*Fixed income*

112. The vast majority of the fixed income securities prices were not obtained from an active market directly, which would have led to a level 1 classification. Instead, prices were obtained through bids from brokers, which were indicative quotes and therefore classified as level 2.

113. Index-linked non-United States government bonds amounting to $49.6 million as at 31 December 2015 were classified as level 3, as their values were based on evaluations of bids from brokers adjusted for indexing, which was generally uncorroborated market data.

114. Corporate bonds and corporate bond funds amounting to $46.7 million as at 31 December 2016 (31 December 2015: $59.8 million) were considered to be level 3. Inputs for the value of these investments, while available from third-party

sources, were not well-defined, readily observable market data. Consequently, the Fund has decided to classify such investments as level 3.

*Real assets and alternative and other investments*

115. Real assets amounting to $3,556.4 million as at 31 December 2016 (31 December 2015: $3,128.0 million) as well as alternative and other investments amounting to $1,663.8 million as at 31 December 2016 (31 December 2015: $1,380.8 million) were classified under level 3, as they were priced using the net asset value methodology, for which the Fund was unable to corroborate or verify inputs using observable market data. In addition, limited options were available to the investors to redeem units, hence making the investments in such funds relatively illiquid.

116. Two real estate funds amounting to $239.7 million (31 December 2015: $187.2 million), which were readily redeemable at net asset value without penalties, were classified as level 2 assets, representing the net asset value as reported by the fund manager.

117. One investment, classified as a hedge fund and amounting to $484.8 million as at 31 December 2015, was classified as level 2 and was sold during the year 2016.

118. The following table presents the transfers between levels for the year ended 31 December 2016.

(Thousands of United States dollars)

| | Level | | | |
|---|---|---|---|---|
| | 1 | 2 | 3 | Total |
| **Transfers into** | | | | |
| Fixed income | – | 19 370 | – | 19 370 |
| Equities | – | – | 29 836 | 29 836 |
| Alternative and other investments | – | – | – | – |
| **Total** | **–** | **19 370** | **29 836** | **49 206** |
| **Transfers out of** | | | | |
| Fixed income | – | – | (19 370) | (19 370) |
| Equities | – | – | – | – |
| Alternative and other investments | – | – | (29 836) | (29 836) |
| **Total** | **–** | **–** | **(49 206)** | **(49 206)** |

119. The following table presents the transfers between levels for the year ended 31 December 2015.

(Thousands of United States dollars)

| | Level | | | |
|---|---|---|---|---|
| | 1 | 2 | 3 | Total |
| **Transfers into** | | | | |
| Fixed income | – | – | – | – |
| Real assets | – | – | – | – |
| Equities | 7 477 | – | – | 7 477 |
| **Total** | **7 477** | – | – | **7 477** |
| **Transfers out of** | | | | |
| Fixed income | – | – | – | – |
| Real assets | – | – | – | – |
| Equities | – | (7 477) | – | (7 477) |
| **Total** | – | **(7 477)** | – | **(7 477)** |

120. For the year ended 31 December 2016, there was a transfer of one fixed-income security amounting to $19.4 million out of level 3 and into level 2. The security is priced by multiple vendors as at 31 December 2016 compared with single vendors as at 31 December 2015. As such, the Fund has decided to classify this investment as level 2.

121. For the year ended 31 December 2015, there was a transfer of one equity security amounting to $7.5 million out of level 2 and into level 1. The security is priced by multiple vendors and there is now observable data available quoted in an active market. As such, the Fund has decided to classify this investment as level 1.

122. The following table presents the movements in level 3 instruments for the period ended 31 December 2016 by class of financial instrument:

(Thousands of United States dollars)

| | *Equities* | *Fixed income* | *Real assets* | *Alternatives and other investments* | *Total* |
|---|---|---|---|---|---|
| **Opening balance** | **165 279** | **109 367** | **3 127 959** | **1 380 833** | **4 783 438** |
| Purchases | 3 043 | 128 602 | 812 716 | 371 192 | 1 315 553 |
| Sales/return of capital | (17 150) | (48 280) | (620 183) | (232 112) | (917 725) |
| Transfers (out of)/into level 3 | 29 836 | (19 370) | – | (29 836) | (19 370) |
| Net gains/(losses) recognized in the statement of changes in net assets available for benefits | (22 647) | 2 600 | 235 954 | 173 724 | 389 631 |
| **Closing balance** | **158 361** | **172 919** | **3 556 446** | **1 663 801** | **5 551 527** |
| Change in unrealized gains/(losses) for level 3 assets held at the period end and included in the statement of changes in net assets available for benefits | (13 176) | (1 869) | 205 168 | 142 746 | 332 969 |

123. The following table presents the movements in level 3 instruments for the year ended 31 December 2015 by class of financial instrument:

(Thousands of United States dollars)

| | *Equities* | *Fixed income* | *Real assets* | *Alternative and other investments* | *Total* |
|---|---|---|---|---|---|
| **Opening balance** | **214 878** | **279 768** | **2 608 104** | **1 003 884** | **4 106 634** |
| Purchases | 3 099 | 30 581 | 730 071 | 486 159 | 1 249 910 |
| Sales/return of capital | (16 000) | (174 565) | (505 203) | (142 818) | (838 586) |
| Transfers (out of)/into level 3 | – | – | – | – | – |
| Net gains/(losses) recognized in the statement of changes in net assets available for benefits | (36 698) | (26 417) | 294 987 | 33 608 | 265 480 |
| **Closing balance** | **165 279** | **109 367** | **3 127 959** | **1 380 833** | **4 783 438** |
| Change in unrealized gains (losses) for level 3 assets held at the period end and included in statement of changes in net assets available for benefits | (32 412) | (63 552) | 162 419 | 32 345 | 98 800 |

## Note 7
## Accrued income from investments

124. Accrued income from investments is income earned during the year that has yet to be received as at the date of the statement of net assets available for benefits.

(Thousands of United States dollars)

| | *31 December 2016* | *31 December 2015* |
|---|---|---|
| Cash and cash equivalents | 324 | 133 |
| Short-term investments | 5 447 | 3 768 |
| Fixed income securities | 86 486 | 98 114 |
| Dividends receivable on equities | 44 919 | 43 089 |
| Real assets and alternative investments | 2 135 | 2 732 |
| **Total accrued income from investments** | **139 311** | **147 836** |

## Note 8
## Withholding tax receivables

125. The outstanding balances of withholding income taxes as at 31 December 2016 can be broken down as follows:

| | | *Tax denominated in thousands of local currency* | | | | | *Tax denominated in thousands of United States dollars* | | |
|---|---|---|---|---|---|---|---|---|---|
| *Country* | | *Before 2015* | *2015* | *2016* | *Total* | *Exchange rate* | *Equivalent* | *Deemed not recoverable* | *Recoverable* |
| Australia | Australian dollar | 179 | – | – | 179 | 1.38102 | 130 | – | 130 |
| Austria | Euro | 25 | – | – | 25 | 0.94809 | 26 | – | 26 |
| Brazil | Brazilian real | 1 612 | – | – | 1 612 | 3.25470 | 495 | (495) | – |
| China | Hong Kong dollar | 53 722 | 8 963 | 8 747 | 71 432 | 7.75315 | 9 213 | (9 213) | – |
| Germany | Euro | – | – | 5 400 | 5 400 | 0.94809 | 5 696 | – | 5 696 |
| Greece | Euro | 99 | – | – | 99 | 0.94809 | 104 | (104) | – |
| Ireland | Euro | – | – | 20 | 20 | 0.94809 | 21 | – | 21 |
| Netherlands | Euro | 5 | – | 127 | 132 | 0.94809 | 139 | – | 139 |
| Russian Federation | United States dollar | 170 | – | – | 170 | 1.00000 | 170 | – | 170 |
| Singapore | Singapore dollar | – | – | – | – | 1.44470 | – | – | – |
| Spain | Euro | – | – | 181 | 181 | 0.94809 | 191 | – | 191 |
| Sweden | Euro | 27 | – | – | 27 | 0.94809 | 28 | (28) | – |
| Switzerland | Swiss franc | – | – | 2 238 | 2 238 | 1.01635 | 2 201 | – | 2 201 |
| Turkey | Turkish lira | 1 386 | – | – | 1 386 | 3.51760 | 394 | (394) | – |
| United Kingdom | Pound sterling | – | – | – | – | 0.80921 | – | – | – |
| | Euro | – | 339 | 1 488 | 1 827 | 0.94809 | 1 927 | – | 1 927 |
| United States | United States dollar | – | – | – | – | 1.00000 | – | – | – |
| **Withholding tax receivable net of provision** | | | | | | | **20 735** | **(10 234)** | **10 501** |

126. The outstanding balances of withholding income taxes as at 31 December 2015 are as follows:

| | | *Tax denominated in thousands of local currency* | | | | | *Tax denominated in thousands of United States dollars* | | |
|---|---|---|---|---|---|---|---|---|---|
| *Country* | | *Before 2014* | *2014* | *2015* | *Total* | *Exchange rate* | *Equivalent* | *Deemed not recoverable* | *Recoverable* |
| Australia | Australian dollar | 92 | 87 | – | 179 | 1.37448 | 130 | – | 130 |
| Austria | Euro | – | 25 | – | 25 | 0.92056 | 27 | – | 27 |
| Brazil | Brazilian real | 1 612 | – | – | 1 612 | 3.95625 | 407 | (407) | – |
| China | Hong Kong dollar | 45 259 | 10 504 | 9 285 | 65 048 | 7.75015 | 8 393 | (8 393) | – |
| Germany | Euro | – | – | 5 936 | 5 936 | 0.92056 | 6 448 | – | 6 448 |
| Greece | Euro | 99 | – | – | 99 | 0.92056 | 107 | – | 107 |
| Netherlands | Euro | – | 77 | 54 | 131 | 0.92056 | 143 | – | 143 |
| Russian Federation | United States dollar | 497 | – | – | 497 | 1.00000 | 497 | – | 497 |
| Singapore | Singapore dollar | 52 | – | – | 52 | 1.41865 | 37 | – | 37 |
| Spain | Euro | – | – | 243 | 243 | 0.92056 | 265 | – | 265 |
| Sweden | Euro | 27 | – | – | 27 | 0.92056 | 29 | – | 29 |
| Switzerland | Swiss franc | – | – | 2 094 | 2 094 | 1.00100 | 2 092 | – | 2 092 |
| Turkey | Turkish lira | 1 386 | – | – | 1 386 | 2.91885 | 475 | (475) | – |
| United Kingdom | Pound sterling | – | – | 0 | 0 | 0.67847 | – | – | – |
| | Euro | 298 | 915 | 1 392 | 2 605 | 0.92056 | 2 829 | – | 2 829 |
| United States | United States dollar | – | – | – | – | 1.00000 | – | – | – |
| **Withholding tax receivable net of provision** | | | | | | | **21 879** | **(9 275)** | **12 604** |

## Note 9
## Other assets

127. The other assets included in the statement of net assets available for benefits can be broken down as follows:

(Thousands of United States dollars)

| | *31 December 2016* | *31 December 2015* |
|---|---|---|
| Prepaid benefits and benefits receivable | 13 688 | 15 167 |
| Property, plant and equipment | 3 912 | 4 223 |
| Intangible assets in use | 10 298 | 15 087 |
| Intangible assets under development | – | 115 |
| United Nations receivables | 4 891 | 5 226 |
| Other receivables | 448 | 511 |
| **Total** | **33 237** | **40 329** |

### 9.1 Prepaid benefits and benefits receivables

128. An overview of the prepayments and other accounts receivable held by the Fund is as follows:

(Thousands of United States dollars)

| | *31 December 2016* | *31 December 2015* |
|---|---|---|
| Prepayments | 491 | 770 |
| Benefits receivable | 17 909 | 18 652 |
| Benefits receivable – provision | (4 712) | (4 255) |
| **Total** | **13 688** | **15 167** |

### 9.2 Property, plant and equipment

129. An overview of the fixed assets held by the Fund is as follows:

(Thousands of United States dollars)

| | | *Leasehold improvements* | | |
|---|---|---|---|---|
| | *Information technology equipment* | *In use* | *Under construction* | *Total* |
| **Cost** | | | | |
| 1 January 2016 | 1 333 | 10 880 | 2 170 | 14 383 |
| Additions | 283 | 3 083 | (2 170) | 1 196 |
| Disposals/transfers | (21) | – | – | (21) |
| 31 December 2016 | 1 595 | 13 963 | – | 15 558 |

| | | Leasehold improvements | | |
|---|---|---|---|---|
| | *Information technology equipment* | *In use* | *Under construction* | *Total* |
| **Accumulated depreciation** | | | | |
| 1 January 2016 | 1 086 | 9 074 | – | 10 160 |
| Depreciation | 224 | 1 283 | – | 1 507 |
| Disposals/transfers | (21) | – | – | (21) |
| 31 December 2016 | 1 289 | 10 357 | – | 11 646 |
| **Net book value, 31 December 2016** | **306** | **3 606** | **–** | **3 912** |

(Thousands of United States dollars)

| | | *Leasehold improvements* | | |
|---|---|---|---|---|
| | *Information technology equipment* | *In use* | *Under construction* | *Total* |
| **Cost** | | | | |
| 1 January 2015 | 4 785 | 10 880 | – | 15 665 |
| Additions | – | – | 2 170 | 2 170 |
| Disposals/transfers | (3 452) | – | – | (3 452) |
| 31 December 2015 | 1 333 | 10 880 | 2 170 | 14 383 |
| **Accumulated depreciation** | | | | |
| 1 January 2015 | 4 256 | 8 405 | – | 12 661 |
| Depreciation | 282 | 669 | – | 951 |
| Disposals/transfers | (3 452) | – | – | (3 452) |
| 31 December 2015 | 1 086 | 9 074 | – | 10 160 |
| **Net book value, 31 December 2015** | **247** | **1 806** | **2 170** | **4 223** |

130. The leasehold improvements in use and under construction included above relate to the Fund's improvements to its offices in New York.

### 9.3 Intangible assets

131. The intangible asset amount included in the statement of net assets available for benefits can be broken down as follows:

(Thousands of United States dollars)

| | *Intangible assets* | | |
|---|---|---|---|
| | *In use* | *Under construction* | *Total* |
| **Cost** | | | |
| 1 January 2016 | 20 305 | 115 | 20 420 |
| Additions | 1 734 | – | 1 734 |
| Transfers | 115 | (115) | – |
| Disposals | (432) | – | (432) |
| 31 December 2016 | 21 722 | – | 21 722 |
| **Accumulated depreciation** | | | |
| 1 January 2016 | 5 218 | – | 5 218 |
| Amortization | 6 638 | – | 6 638 |
| Disposals | (432) | – | (432) |
| 31 December 2016 | 11 424 | – | 11 424 |
| **Net book value, 31 December 2016** | **10 298** | **–** | **10 298** |

(Thousands of United States dollars)

| | *Intangible assets* | | |
|---|---|---|---|
| | *In use* | *Under construction* | *Total* |
| **Cost** | | | |
| 1 January 2015 | 2 259 | 13 357 | 15 616 |
| Additions | – | 4 804 | 4 804 |
| Transfers | 18 046 | (18 046) | – |
| Disposals | – | – | – |
| 31 December 2015 | 20 305 | 115 | 20 420 |
| **Accumulated depreciation** | | | |
| 1 January 2015 | 2 049 | – | 2 049 |
| Amortization | 3 169 | – | 3 169 |
| Disposals | – | – | – |
| 31 December 2015 | 5 218 | – | 5 218 |
| **Net book value, 31 December 2015** | **15 087** | **115** | **15 202** |

132. The costs transferred from under construction to in use in 2015 relate to the Integrated Pension Administration System project.

## Note 10
## Benefits payable

133. The amount shown in the statement of net assets can be broken down as follows:

(Thousands of United States dollars)

| | 31 December 2016 | Restated 31 December 2015 |
|---|---|---|
| Withdrawal settlements | 41 210 | 90 173 |
| Lump-sum payments | 52 105 | 84 322 |
| Periodic benefits payable | 40 524 | 51 983 |
| Other benefits payable | (57) | (57) |
| **Total** | **133 782** | **226 421** |

134. Note 25 contains additional information regarding restatement.

## Note 11
## After-service health insurance and other employee benefits

135. A breakdown of the amount shown in the statement of net assets for after-service health insurance and other benefits payable is as follows:

(Thousands of United States dollars)

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| After-service health insurance liability | 69 383 | 63 138 |
| Repatriation grant and related costs | 2 932 | 2 846 |
| Education grant and related costs | 292 | 268 |
| Death benefit | 149 | 148 |
| Annual leave | 3 724 | 3 723 |
| Home leave | 256 | 235 |
| **Total** | **76 736** | **70 358** |

*After-service health insurance, annual leave, repatriation grants and death benefit liability*

136. The Fund provides its employees who have met certain eligibility requirements with the following after-service and end-of-service benefits:

- Health-care benefits after they retire. This benefit is referred to as after-service health insurance.
- Repatriation benefits to facilitate the relocation of expatriate staff members.
- Annual leave benefits to provide staff members with periods of time off from work at full pay for personal reasons and for purposes of health, rest and recreation. Upon separation from service, staff members who have accrued unused annual leave will be paid for each day of unused leave up to a maximum of 60 days.
- Death benefits payable in case of death in service to any dependants.

137. The liabilities as at 31 December 2016 are the result of the roll-forward to 31 December 2016 of the end-of-service benefit obligations as at 31 December 2015

for the Fund by the consulting actuary. Roll-forward results are established on the basis of population and demographic assumptions used for the 31 December 2015 valuation. The liabilities as at 31 December 2015 were calculated on the basis of census data as at 30 September 2015 and:

- Health insurance premium and contribution data provided by the United Nations
- Actual retiree claims experience under health insurance plans
- Estimated travel and shipment costs and annual leave balances reported by the United Nations in the census data
- Various economic, demographic and other actuarial assumptions
- Generally accepted actuarial methods and procedures

138. In performing the roll-forward to 31 December 2016, only the financial assumptions such as the discount rates, inflation and health-care cost trend rates were reviewed as at 31 December 2016 and updated when necessary. All other assumptions remain the same as those used for the full valuation as at 31 December 2015.

139. The key assumptions in the calculation of after-service liabilities are the discount rate and health-care trend rates. The discount rate is based on the spot rate, which reflects the market expectations at the time of the calculations to meet future expected benefit payments, based on high-quality bonds. The discount rate is then the equivalent single rate that would produce the same liability as the full spot curve using the multiple bonds necessary to meet the future cash flow expectations.

140. For 31 December 2016, the single equivalent discount rates were selected and determined by the Fund as follows:

- 3.83 per cent for the after-service health insurance scheme
- 3.46 per cent for repatriation benefits
- 3.58 per cent for annual leave
- 3.29 per cent for death benefits

141. For 31 December 2015, the single equivalent discount rates were selected and determined by the Fund as follows:

- 3.97 per cent for the after-service health insurance scheme
- 3.58 per cent for repatriation benefits
- 3.68 per cent for annual leave
- 3.36 per cent for death benefits

142. For the purpose of comparison, the table below shows the percentage change based on a 1 per cent change in the discount rate.

| | *Impact on accrued liability* | | | |
|---|---|---|---|---|
| *Discount rate* | *After-service health insurance* | *Repatriation benefit* | *Annual leave* | *Death benefit* |
| Increase of 1 per cent | 18 per cent decrease | 9 per cent decrease | 8 per cent decrease | 7 per cent decrease |
| Decrease of 1 per cent | 24 per cent increase | 10 per cent increase | 10 per cent increase | 7 per cent increase |

143. The comparison of health-care cost trend rates is as follows:

| | *31 December 2016* | *31 December 2015* |
|---|---|---|
| Non-United States medical | 4.0 per cent per year | 4.0 per cent per year |
| United States medical — non-Medicare | 6.0 per cent trending down to 4.5 per cent after 10 years | 6.4 per cent trending down to 4.5 per cent after 10 years |
| United States medical — Medicare | 5.7 per cent trending down to 4.5 per cent after 10 years | 5.9 per cent trending down to 4.5 per cent after 10 years |
| United States dental | 4.9 per cent trending down to 4.5 per cent after 10 years | 4.9 per cent trending down to 4.5 per cent after 10 years |

144. The increase in the total after-service health liabilities reported from 31 December 2015 to 31 December 2016 is due primarily to the impact of changing the actuarial assumptions, in particular the decrease in discount rates for benefits denominated in United States dollars: service costs resulting from employee services during 2016; and interest costs during the year, because the benefits are one period closer to settlement and benefits paid. During the year, the reference discount rate for Swiss francs was modified from that of the prior year from the government rate to the corporate bond rate to harmonize the actuarial assumptions used across the United Nations system.

145. Other specific key assumptions used in the calculations on the basis of census data as at 30 September 2015 are set out in the paragraphs below.

*After-service health insurance*

146. Two hundred and twelve active staff were included in the calculation: 181 based in the United States and 31 not based in the United States. Seventy-six retired staff or their surviving spouses were included in the calculation: 64 based in the United States and 12 not based in the United States. In addition, 18 active staff and two retirees or their surviving spouses who participate in dental-only plans were included. For active staff, the average age was 46 years with 10 years of service. The average age of retirees was 69 years.

*Repatriation benefits*

147. Staff members who are appointed as international staff are eligible for the payment of a repatriation grant after one year of active service outside his or her country of nationality provided that the reason for separation is not summary dismissal or abandonment of post.

148. The amount ranges from 2 to 28 weeks of salary, depending on the category of employment and years of service of the eligible staff. Travel and shipment of personal effects may also be authorized to the recognized country of home leave

149. Sixty-five eligible staff, with an average annual salary of $84,336, were considered.

*Annual leave*

150. Staff are entitled to accrue annual leave from the date of their appointment. Staff members who, upon separation from service, have accrued leave will be paid up to a maximum of 60 days if on a fixed-term appointment or up to 18 days on a temporary appointment. The payment amount is calculated at 1/261 of applicable salary amounts for each unused annual leave day.

151. Two hundred and forty-one active staff, with an average annual salary of $101,712, were considered.

## Note 12
## Other accruals and liabilities

152. The amounts shown as other accruals and liabilities in the financial statements can be broken down as follows:

(Thousands of United States dollars)

| | *31 December 2016* | *31 December 2015* |
|---|---|---|
| Accruals for management fees and expenses | 10 287 | 6 235 |
| Accrual for contractual services | 4 339 | 345 |
| Restoration payable | 2 036 | 2 876 |
| Operating leases rent accrual | 1 755 | 2 593 |
| Audit fee accrual | 197 | 194 |
| After-service health insurance payable to member organizations | 7 | –[a] |
| Other | 366 | 395 |
| **Total** | **18 987** | **12 638** |

[a] Balance rounded to the nearest thousand United States dollars.

## Note 13
## Investment (loss)/income

153. The table below summarizes the Fund's income from investments net of transaction costs recognized during the period. Any transaction cost that can be allocated to a single transaction or trade is netted off against investment income. Examples are broker commissions, other transaction costs and management fees. Any management expense charged to the income statement of a real asset or alternative fund was recorded separately as management expenses in the Fund's statement of changes in net assets and included under transaction costs.

154. In some jurisdictions, the Fund receives dividend income, interest income and real estate income without any withholding tax. This is primarily a result of the fact

that pension funds are exempt from withholding taxes in many jurisdictions. However, a number of jurisdictions do not provide this benefit to all pension funds, but recognize that the United Nations Joint Staff Pension Fund is part of the United Nations and hence is exempt from national taxation of Member States on its direct investments, in accordance with Article 105 of the Charter and with article II, section 7 (a), of the 1946 Convention on the Privileges and Immunities of the United Nations (see also note 3.3). The Fund is not able to reliably measure the value of the additional tax exemption obtained by being part of the United Nations and therefore does not disclose the value of this additional benefit on the face of the statement of changes in net assets available for benefits as non-exchange income in accordance with IPSAS 23, Revenue from non-exchange transactions.

(Thousands of United States dollars)

| | *31 December 2016* | *31 December 2015* |
|---|---|---|
| Change in fair value for assets designated at fair value | | |
| Short-term investments | (4 014) | (7 181) |
| Equities | 2 008 382 | (255 864) |
| Fixed income | (284 677) | (205 016) |
| Real asset investments | 300 984 | 399 784 |
| Alternative investments | 241 396 | 50 151 |
| **Total change in fair value for financial assets designated at fair value** | **2 262 071** | **(18 126)** |
| Interest income | | |
| Interest income on cash and cash equivalents | 3 287 | 2 515 |
| Interest income on fixed income instruments | 322 499 | 353 038 |
| **Total interest income** | **325 786** | **355 553** |
| Dividend income | 821 651 | 777 863 |
| **Total dividend income** | **821 651** | **777 863** |
| Income from real assets | 55 015 | 38 302 |
| **Total income from real assets** | **55 015** | **38 302** |
| Changes in foreign currency gain and losses | (679 882) | (1 487 401) |
| **Net foreign currency (losses)** | **(679 882)** | **(1 487 401)** |
| Transaction costs | | |
| Management fees and other related fees | (90 696) | (98 820) |
| Small capitalization fund management fees | (10 087) | (9 770) |
| Brokerage commissions | (13 012) | (11 410) |
| Other transaction costs | (3 699) | (4 454) |
| **Total transaction costs** | **(117 494)** | **(124 454)** |
| **Net investment income/(loss)** | **2 667 147** | **(458 263)** |

155. The change in foreign currency losses includes $776.4 million (2015: $751.4 million) realized foreign currency loss and $96.5 million unrealized foreign currency gain (2015: $736.0 million unrealized foreign currency loss).

## Note 14
## Contributions

156. Contributions received in the period can be broken down as follows:

(Thousands of United States dollars)

| | *2016* | *2015* |
|---|---|---|
| **Contributions from participants** | | |
| Regular contributions | 752 314 | 747 250 |
| Contributions for validation | 607 | 835 |
| Contributions for restoration | 4 118 | 3 054 |
| | **757 039** | **751 139** |
| **Contributions from member organizations** | | |
| Regular contributions | 1 504 629 | 1 494 499 |
| Contributions for validation | 1 564 | 1 504 |
| | **1 506 193** | **1 496 003** |
| **Other contributions** | | |
| Contributions for participants transferred in under agreements | 3 827 | 1 782 |
| Receipts of excess actuarial value over regular contributions | 171 | 207 |
| Other contributions/adjustments | 6 268 | 7 846 |
| | **10 266** | **9 835** |
| **Total contributions for the period** | **2 273 498** | **2 256 977** |

157. The contribution income varies on the basis of changes in the number of participants, changes in the distribution of participants, changes in pensionable remuneration rates as a result of cost-of-living increases determined by the International Civil Service Commission and the yearly step increase to individual pensionable remuneration received by all participants.

## Note 15
## Other income

158. Other income earned during the period can be broken down as follows:

(Thousands of United States dollars)

| | *2016* | *2015* |
|---|---|---|
| Class action proceeds | 485 | 4 351 |
| Notional interest income | 2 093 | 3 916 |
| United Nations University management fees | 50 | 50 |
| Other claims | 740 | 214 |
| **Total other income for the period** | **3 368** | **8 531** |

## Note 16
## Benefit expenses

159. Benefit expenses in the period can be broken down as follows:

(Thousands of United States dollars)

| | *2016* | *Restated 2015* |
|---|---|---|
| **Withdrawal settlements and full commutation of benefits** | | |
| For contributory service of five years or less | 42 790 | 55 187 |
| For contributory service more than five years | 74 605 | 138 041 |
| | **117 395** | **193 228** |
| **Retirement benefits** | | |
| Full retirement benefits | 1 297 563 | 1 249 634 |
| Early retirement benefits | 668 319 | 643 261 |
| Deferred retirement benefits | 93 225 | 90 506 |
| Disability benefits | 67 886 | 63 909 |
| Survivor benefits | 234 666 | 231 609 |
| Child benefits | 29 632 | 26 050 |
| | **2 391 291** | **2 304 969** |
| **Other benefits/adjustments** | | |
| Payments for participants transferred out under agreements | 228 | 141 |
| Other benefits/adjustments | (2 794) | (380) |
| | **(2 566)** | **(239)** |
| **Total benefit expenses for the period** | **2 506 120** | **2 497 958** |

160. Note 25 contains additional information regarding restatement.

## Note 17
## Administrative expenses

161. Expenses incurred in 2016 and 2015 are as follows:

(Thousands of United States dollars)

| | 2016 | | | | |
|---|---|---|---|---|---|
| | *Administrative expenses* | *Investment expenses* | *Audit fees* | *Board expenses* | *Total* |
| Established posts (excluding change in the value of the after-service health insurance liability) | 14 387 | 10 418 | – | – | 24 805 |
| Change in the value of the after-service health insurance liability | 4 655 | 1 474 | 116 | – | 6 245 |
| Other staff costs | 4 189 | 363 | – | – | 4 552 |
| Consultants | 113 | 87 | – | – | 200 |
| Travel | 349 | 395 | – | – | 744 |
| Training | 57 | 14 | – | – | 71 |
| Contractual services | 13 995 | 13 002 | – | – | 26 997 |
| Hospitality | – | – | – | – | – |
| General operating expenses | 4 367 | 4 290 | – | – | 8 657 |
| Supplies and materials | 81 | 27 | – | – | 108 |
| Furniture and equipment | 460 | 410 | – | – | 870 |
| Audit costs (excluding change in the value of the after-service health insurance liability) | – | – | 1 099 | – | 1 099 |
| Board expenses | – | – | – | 416 | 416 |
| **Total administrative expenses** | **42 653** | **30 480** | **1 215** | **416** | **74 764** |

(Thousands of United States dollars)

| | *2015* | | | | |
|---|---|---|---|---|---|
| | *Administrative expenses* | *Investment expenses* | *Audit fees* | *Board expenses* | *Total* |
| Established posts (excluding change in the value of the after-service health insurance liability) | 13 219 | 9 901 | – | – | 23 120 |
| Change in the value of the after-service health insurance liability | (4 166) | (1 305) | (108) | – | (5 579) |
| Other staff costs | 1 988 | 480 | – | – | 2 468 |
| Consultants | 284 | 629 | – | – | 913 |
| Travel | 368 | 579 | – | – | 947 |
| Training | 52 | 27 | – | – | 79 |
| Contractual services | 8 684 | 15 810 | – | – | 24 494 |
| Hospitality | – | 2 | – | – | 2 |
| General operating expenses | 4 740 | 3 534 | – | – | 8 274 |
| Supplies and materials | 34 | 25 | – | – | 59 |
| Furniture and equipment | 578 | 204 | – | – | 782 |
| Audit costs (excluding change in the value of the after-service health insurance liability) | – | – | 1 006 | – | 1 006 |
| Board expenses | – | – | – | 104 | 104 |
| **Total administrative expenses** | **25 781** | **29 886** | **898** | **104** | **56 669** |

## Note 18
## Other expenses

162. Other expenses incurred during the period can be broken down as follows:

(Thousands of United States dollars)

| | *2016* | *2015* |
|---|---|---|
| Emergency fund expense | 40 | 35 |
| Notional interest expense | 637 | 2 175 |
| Other expenses and claims | 605 | 1 007 |
| **Total other expenses for the period** | **1 282** | **3 217** |

## Note 19
## Actuarial situation of the Fund
(see also note 1.5)

163. The Fund provides retirement, death, disability and related benefits for staff of the United Nations and other organizations admitted to membership in the Fund. Accumulated (promised) plan benefits represent the total actuarial present value of those estimated future benefits that are attributable under the Fund's provisions to

the service that staff have rendered as at the valuation date. Accumulated plan benefits include benefits to be paid to: (a) retired or terminated staff or their beneficiaries; (b) beneficiaries of staff who have died; and (c) present staff or their beneficiaries.

164. Benefits payable under all circumstances — retirement, death, disability and termination of employment — are included to the extent they are deemed attributable to the service that staff have rendered as at the valuation date.

165. The actuarial present value of accumulated (promised) plan benefits (which does not take into account future increases in pensionable remuneration) is determined by independent actuaries and the amount is derived by applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal or retirement) between the valuation date and the expected date of payment.

166. The Fund is applying the guidance included in IAS 26.28 (b) and discloses the actuarial present value of promised retirement benefits in the notes to its financial statements.

*Key assumptions*

167. The significant actuarial assumptions used are as follows:

- Life expectancy of participants (2007 United Nations mortality tables adjusted for forecast improvements in mortality)
- Age-specific retirement and turnover assumptions as approved by the Pension Board during its sixty-second session
- Annual investment return of 6.5 per cent, which serves as the discount rate for liabilities
- Annual rate of 3.0 per cent for cost-of-living increases in pensions
- Assumed long-term cost of two-track system of 2.1 per cent of pensionable remuneration
- Assumed percentage of benefits commuted by retired participants of 20.4 per cent of annuity payments

168. These key assumptions were recommended by the Committee of Actuaries and adopted by the Pension Board at its sixty-second session, in July 2015. The foregoing actuarial assumptions are based on the presumption that the Fund will continue. Were the Fund to be terminated, different actuarial assumptions and other factors may be applicable in determining the actuarial present value of accumulated plan benefits. The actuarial present value of accumulated plan benefits as at 31 December 2016 shown in the present disclosure is projected to the disclosure date using standard actuarial techniques on the basis of the 31 December 2013 valuation results and assumes that all economic and demographic assumptions will have been exactly met from 31 December 2013 onward, except actual experience for foreign exchange and inflation experience for the period 31 December 2013 to 31 December 2015 have been reflected.

*Statement of accumulated benefits*

169. The actuarial present value of accumulated plan benefits as at 31 December 2016 is as follows (see note 1.11 for a description of the pension adjustment system):

(Millions of United States dollars)

| | *If future pension payments are made under the Regulations* | |
|---|---|---|
| | *Without pension adjustments* | *With pension adjustments* |
| Actuarial value of vested benefits | | |
| Participants currently receiving benefits | 22 431 | 32 936 |
| Vested terminated participants | 230 | 402 |
| Active participants | 12 381 | 18 783 |
| **Total vested benefits** | **35 042** | **52 121** |
| Non-vested benefits | 1 252 | 1 596 |
| **Total actuarial present value of accumulated plan benefits** | **36 294** | **53 717** |

*Information on participation in the Pension Fund*

170. A valuation as at 31 December 2015 was prepared by the consulting actuary and presented to the Committee of Actuaries and the Pension Board in 2016. However, using additional information becoming available in 2017, anomalies in the census data provided to the consulting actuary were identified as a result of the transition from the legacy information technology system, and it was decided that the previous valuation provided by the consulting actuaries as at 31 December 2013 would be used. In accordance with the valuation conducted as at 31 December 2015, the total actuarial present value of accumulated plan benefits was $36,549 million (without pension adjustment) and $51,625 million (with pension adjustment). As a result of the withdrawal of the valuation report as at 31 December 2015, the total actuarial present value of accumulated plan benefits was changed, as stated above, which had the impact of an increase/(decrease) in the total actuarial present value of accumulated plan benefits by $2,092 million (with pension adjustment) and ($255 million) (without pension adjustment). The Fund is committed to further investigating and resolving the census data anomalies identified in the next actuarial valuation noted in its financial statements for the year ended 31 December 2017. As an exception from the cycle of valuation occurring once every two years, the valuation was therefore based on participation as at 31 December 2013. The participation in the plan developed as follows:

| | *As at 31 December 2013* |
|---|---|
| Active participants | |
| Number | 120 294 |
| Annual remuneration (in millions of United States dollars) | 10 375 |
| **Average remuneration (in United States dollars)** | **86 245** |

| | *As at 31 December 2013* |
|---|---|
| Retired participants and beneficiaries | |
| Number | 69 980 |
| Annual benefit (in millions of United States dollars) | 2 050 |
| **Average benefit (in United States dollars)** | **29 292** |

*Actuarial asset value used for periodic actuarial valuations*

171. The actuarial asset value used for the purpose of preparing the periodic actuarial valuation differs from the value presented in the financial statements. The periodic actuarial valuation presents a value using a five-year moving market average methodology. A limiting corridor of 15 per cent is applied, which means that the computed value has a minimum value of 85 per cent and a maximum value of 115 per cent of the market value of the assets as at the valuation date. Starting with the valuation as at 31 December 2013, a gradual transition to the alternative asset averaging methodology was introduced, with a target completion date of the actuarial valuation of 31 December 2019. The effect of transitioning to the alternative asset averaging methodology is an increase in actuarial assets of $996.7 million as at 31 December 2013 and $2,214.1 million as at 31 December 2015.

## Note 20
## Commitments and contingencies

### 20.1 Investment commitments

172. As at 31 December 2016 and 31 December 2015, the Fund was committed to the following investment commitments:

(Thousands of United States dollars)

| | *31 December 2016* | *31 December 2015* |
|---|---|---|
| Real estate funds | 2 045 371 | 1 393 425 |
| Private equity | 1 967 515 | 1 683 823 |
| Infrastructure funds | 60 020 | 115 468 |
| Timberland funds | 86 701 | 60 020 |
| **Total commitments** | **4 159 607** | **3 252 736** |

173. With regard to private equity and the real estate, infrastructure and timberland investments, funds are drawn down in accordance with the terms and conditions of the fund agreements. The fund agreements are unique to each individual investment. However, funds are drawn down to: (a) fund investments in assets that have been purchased or are being contracted for purchase; and (b) pay fees earned by the general partner or manager under the terms and conditions of the fund agreement.

### 20.2 Lease commitments

174. As at 31 December 2016 and 31 December 2015, the Fund was committed to the following lease commitments:

(Thousands of United States dollars)

| | *31 December 2016* | *31 December 2015* |
|---|---|---|
| **Obligations for property leases** | | |
| Under 1 year | 6 566 | 6 738 |
| 1-5 years | 16 380 | 23 339 |
| Beyond 5 years | – | – |
| **Total** | **22 946** | **30 077** |

### 20.3 Legal or contingent liabilities and contingent assets

175. There are no material contingent liabilities arising from legal actions and claims that are likely to result in a significant liability to the Pension Fund.

176. Contingent assets are excluded from the statement of net assets available for benefits on the basis that the inflow of economic benefits is not virtually certain but reliant on the occurrence of an event outside of the control of the Fund. There were no contingent assets as at 31 December 2016.

## Note 21
## Risk assessment

177. The Fund's activities expose it to a variety of financial risks including, but not limited to, credit risk, liquidity risk and market risk (including currency risk, interest rate risk and price risk).

178. The Fund's investment risk management programme seeks to measure and monitor the risk to which the Fund is exposed and seeks to minimize potential adverse effects on the Fund's financial performance, consistent with the Fund's strategic asset allocation policy. The Investments Committee provides advice to the Representative of the Secretary-General on investment strategy and reviews the investments of the Fund at its quarterly meetings. The Committee advises on long-term policy, asset allocation and strategy, diversification by type of investment, currency and economic sector and any other matters.

179. The Fund uses different methods to measure, monitor and manage the various types of financial risk to which it is exposed. These methods are explained below.

### 21.1 Credit risk

180. Credit risk is defined as the potential risk that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms, resulting in a loss. The risk of a trading partner not fulfilling its obligations to another in a timely manner is a risk that all obligors face. Ensuring adequate control over credit risk and effective risk management is critical to the long-term sustainability of the Fund. The Fund manages risk by addressing the following important areas:

- Approving and maintaining appropriate credit exposure measurement and monitoring standards

- Establishing limits for amounts and concentrations of credit risk, and monitoring and implementing a review process for credit exposure
- Ensuring adequate controls over credit risk

181. The Fund is primarily exposed to credit risk in its debt securities (total fixed income, and short-term bills and notes). The Fund's policy to manage this risk is to invest in debt securities that have an investment grade rating by at least one of the following well-known credit rating agencies: Standard & Poor's, Moody's and Fitch. For the purpose of consistency in the present disclosure, the Fund used Moody's Investors Service, which provided ratings on most of the Fund's debt securities in 2016. As at 31 December 2016, 92 per cent (2015: 95 per cent) of individual securities of the fixed income portfolio were investment grade (rated between Aaa to Baa3) by Moody's. The analysis below summarizes the credit quality of the Fund's fixed income portfolio as at 31 December 2016 and 31 December 2015, respectively, as provided by Moody's.

(Thousands of United States dollars)

| | *31 December 2016* | | | |
|---|---|---|---|---|
| | *Aaa-A3* | *Baa1-Baa3* | *Not rated* | *Total* |
| Commercial mortgage-backed | 7 267 | – | – | 7 267 |
| Corporate bonds | 2 056 248 | 555 015 | 178 692 | 2 789 955 |
| Funds — corporate bond | – | – | 46 702 | 46 702 |
| Government agencies | 1 439 840 | – | 59 389 | 1 499 229 |
| Government bonds | 6 310 445 | 359 464 | 576 684 | 7 246 593 |
| Government mortgage-backed | – | – | 56 141 | 56 141 |
| Index-linked government bonds | 35 961 | – | – | 35 961 |
| Municipal/provincial bonds | 544 914 | – | 81 199 | 626 113 |
| Non-government-backed collateralized mortgage obligations | 3 361 | – | – | 3 361 |
| **Total fixed income** | **10 398 036** | **914 479** | **998 807** | **12 311 322** |
| Short-term investments | 203 659 | 68 107 | 452 743 | 724 509 |

(Thousands of United States dollars)

| | *31 December 2015* | | | |
|---|---|---|---|---|
| | *Aaa–A3* | *Baa1–Baa3* | *Not rated* | *Total* |
| Commercial mortgage-backed | 67 079 | – | 48 419 | 115 498 |
| Corporate bonds | 2 883 044 | 704 106 | 75 166 | 3 662 316 |
| Funds — corporate bond | – | – | 44 150 | 44 150 |
| Government agencies | 2 321 741 | – | 6 460 | 2 328 201 |
| Government bonds | 4 948 713 | 271 814 | 342 073 | 5 562 600 |
| Government mortgage-backed | – | – | 74 874 | 74 874 |
| Index-linked government bonds | 155 168 | – | – | 155 168 |
| Municipal/provincial bonds | 494 231 | – | 43 473 | 537 704 |
| Non-government-backed collateralized mortgage obligations | 4 592 | – | – | 4 592 |
| **Total fixed income** | **10 874 568** | **975 920** | **634 615** | **12 485 103** |
| Short-term investments | – | – | 534 952 | 534 952 |

182. Of the unrated fixed income securities totalling $998.8 million as at 31 December 2016, $895.1 million were in debt securities that present a very low credit risk as they carry an issuer's credit rating of investment grade, thereby providing evidence of their creditworthiness. Of the remaining unrated debt securities amounting to $103.7 million for which no issuer rating was available from Moody's, seven debt securities, amounting to $57.0 million, were rated investment grade by at least one of the other two rating agencies (Standard & Poor's and Fitch), and another security, amounting to $46.7 million, was a bond fund and as such was not evaluated by a credit rating agency.

183. Of the unrated fixed income securities totalling $634.6 million as at 31 December 2015, $494.8 million were in debt securities that present a very low credit risk as they carry an issuer's credit rating of investment grade, thereby providing evidence of their creditworthiness. Of the remaining unrated debt securities amounting to $139.8 million for which no issuer rating was available from Moody's, six debt securities, amounting to $95.7 million, were rated investment grade by at least one of the other two rating agencies (Standard & Poor's and Fitch), and another security, amounting to $44.1 million, was a bond fund and as such was not evaluated by a credit rating agency.

184. All transactions in listed securities are paid for upon delivery using approved brokers. Settlement risk is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

### 21.2 Liquidity risk

185. Liquidity risk is the risk of not meeting cash requirements for the Fund's obligations. Cash requirements can arise from settlement needs for various investment trades, capital calls from uncalled or unfunded commitments, and benefit

payment disbursements in various currencies. The Fund manages its liquidity risk by investing the vast majority of its investments in liquid securities.

### 21.3 Market risk

186. Market risk is the risk of change in the value of plan assets as a result of various market factor movements such as interest rates, major market index movements, currency exchange rates and market volatility. The Fund has adopted value at risk as a parameter to measure the market risk, in addition to standard deviation and tracking risk. Value at risk is a universally accepted parameter to communicate market risk for financial institutions and asset management institutions. The Fund also includes risk tolerance for investment risks in the investment policy approved by the Representative of the Secretary-General. On the basis of this risk tolerance, a risk budget has been assigned to each portfolio manager. The risk budget is modified once a year.

187. Value at risk (VaR), as a single number, summarizes the portfolio's exposure to market risk as well as the probability of an adverse move, or in other words, level of risk. The main purpose of value at risk is to assess market risks that result from changes in market prices. There are three key characteristics of value at risk: (a) the amount (in percentage or dollar terms); (b) the time horizon (in this case, one year); and (c) the confidence level (in this case, 95 per cent). When reported as 95 per cent confidence, the VaR 95 number (in percentage or in dollar terms) indicates that there is a 95 per cent chance that portfolio losses will not exceed the given VaR 95 number (in percentage or dollar terms) over a year. In addition, the Fund reports tail risk or expected shortfall, which measures the average expected loss for the 5 per cent of the time when the losses exceed VaR 95. The Fund also reports contribution to risk. Considering the risk of the whole Fund as 100 per cent, contribution to risk indicates how much of the risk is contributed by that asset class. Contribution to risk is additive (all contributions will add up to 100 per cent). VaR 95 is not additive owing to the diversification effect.

188. The table below depicts four important aspects of risk. It shows volatility or standard deviation in percentage, followed by VaR 95 for the given portfolio in percentage terms. Contribution to risk indicates how much each asset class is contributing to the total Fund risk. Clearly, total Fund risk is 100 per cent and each of the asset classes below indicates the contribution to the risk. Expected shortfall at 5 per cent (because the Fund is indicating VaR at 95 per cent) indicates average value or expected value of losses for the 5 per cent of the time when losses exceed VaR 95.

189. All numbers in the tables below are annualized using historical simulation.

(Percentage)

| | 2016 | | | |
|---|---|---|---|---|
| *Asset class* | *Volatility (standard deviation)* | *VaR (95%)* | *Contribution to risk* | *Expected shortfall (5%)* |
| Total fund | 8.58 | 13.10 | 100.00 | 20.40 |
| Total equity | 11.79 | 18.74 | 86.72 | 28.60 |
| Fixed income | 4.71 | 8.06 | 0.69 | 11.29 |
| Cash and short-term | 0.91 | 1.60 | 0.11 | 2.13 |
| Real estate | 14.74 | 26.79 | 8.38 | 36.32 |
| Private equity | 11.62 | 18.15 | 5.70 | 28.49 |
| Commodities | 13.52 | 22.57 | 0.13 | 29.93 |
| Infrastructure | 14.57 | 26.75 | 0.27 | 35.89 |

*Note*: Figures are reported from MSCI RiskMetrics as at 31 December 2016.

(Percentage)

| | 2015 | | | |
|---|---|---|---|---|
| *Asset class* | *Volatility (standard deviation)* | *VaR (95%)* | *Contribution to risk* | *Expected shortfall (5%)* |
| Total fund | 7.64 | 12.00 | 100.00 | 18.04 |
| Total equity | 10.51 | 17.30 | 87.03 | 24.86 |
| Minimum volatility equity | 9.97 | 16.13 | 1.43 | 23.72 |
| Fixed income | 3.56 | 6.04 | 0.73 | 8.77 |
| Cash and short-term | 1.48 | 2.56 | 0.18 | 3.51 |
| Real estate | 14.30 | 22.42 | 6.81 | 31.31 |
| Private equity | 13.77 | 22.48 | 3.27 | 31.54 |
| Commodities | 11.94 | 20.91 | 0.10 | 28.64 |
| Infrastructure | 13.59 | 22.56 | 0.30 | 31.42 |
| Risk parity | 12.82 | 21.93 | 1.58 | 30.98 |

*Note*: Figures are reported from MSCI RiskMetrics as at 1 January 2016.

*Price risk*

190. The Fund is exposed to equity securities price risk. This arises from investments held by the Fund for which prices in the future are uncertain. Where non-monetary financial instruments, for example, equity securities, are denominated in currencies other than the United States dollar, the price is initially expressed in the non-United States dollar denominated currency and is then converted into United States dollars, which will also fluctuate because of changes in currency exchange rates.

191. As at 31 December 2016 and 31 December 2015, the fair value of equities exposed to price risk was as follows:

(Thousands of United States dollars)

| | *31 December 2016* | *31 December 2015* |
|---|---|---|
| Common and preferred stock | 31 366 431 | 29 752 374 |
| Funds — exchange traded funds | 2 646 766 | 2 329 996 |
| Real estate investment trusts | 240 075 | 219 421 |
| Funds — common stock | 158 361 | 165 279 |
| Stapled securities | 43 841 | 34 274 |
| **Total equity instruments** | **34 455 474** | **32 501 344** |

192. Considering the total Fund risk as 100 per cent, the contribution to risk due to price risk is 93.4 per cent (2015: 93.2 per cent). For the total price risk, equities contributed 83.9 per cent (2015: 87.7 per cent) to the total Fund price risk and the rest is contributed by all other asset classes.

193. The Fund also manages its exposure to price risk by analysing the investment portfolio by industrial sector and benchmarking the sector weights.

194. The Fund's equity investment portfolio by industrial sector in 2016 and 2015 was as follows:

(Percentage)

| | *As at 31 December 2016* | | *As at 31 December 2015* | |
|---|---|---|---|---|
| *General industry classification standards* | *Fund's equity portfolio* | *Benchmark* | *Fund's equity portfolio* | *Benchmark* |
| Financials | 17.22 | 18.68 | 19.54 | 21.52 |
| Information technology | 16.29 | 15.53 | 14.99 | 14.87 |
| Consumer discretionary | 11.80 | 12.10 | 12.59 | 12.95 |
| Energy | 6.47 | 7.35 | 5.10 | 6.19 |
| Health care | 11.05 | 11.05 | 13.32 | 12.52 |
| Industrials | 8.62 | 10.63 | 8.56 | 10.30 |
| Consumer staples | 8.28 | 9.48 | 8.67 | 10.23 |
| Materials | 5.05 | 5.27 | 3.87 | 4.53 |
| Telecommunication services | 3.11 | 3.62 | 3.10 | 3.72 |
| Utilities | 2.39 | 3.16 | 2.47 | 3.17 |
| Real estate | 2.01 | 3.13 | – | – |
| Other | 7.71 | – | 7.79 | – |
| **Total** | **100.00** | **100.00** | **100.00** | **100.00** |

195. The following table analyses the Fund's concentration of equity price risk in the Fund's equity portfolio by geographical distribution (on the basis of the counterparty's place of primary listing or, if not listed, place of domicile.)

(Percentage)

| | *2016* | *2015* |
|---|---|---|
| North America | 57.9 | 57.1 |
| Europe | 19.3 | 20.7 |
| Asia-Pacific | 10.7 | 11.3 |
| Emerging markets | 9.9 | 8.4 |
| International regions | 2.2 | 2.5 |
| **Total** | **100.0** | **100.0** |

*Currency risk*

196. The Fund is one of the most globally diversified pension funds in the world and therefore holds both monetary and non-monetary assets denominated in currencies other than the United States dollar, the Fund's base currency. Currency exchange risk arises as the value of financial instruments denominated in other currencies fluctuates owing to changes in currency exchange rates. Management monitors the exposure to all currencies. The unrealized foreign currency gain/loss is attributable primarily to the fluctuation in currency exchange rates during the period.

197. The Fund does not use hedging to manage its non-United States dollar denominated currency risk exposure because the Fund expects currency impact to net out to zero over a full market cycle, as has been the case historically. Currency risk refers to risk due to foreign exchange rate changes.

198. The tables below illustrate the foreign currency risk exposure of the Fund by class of investment. These summarize the Fund's cash and investments at fair value as at 31 December 2016 and 31 December 2015. Net financial liabilities amounting to $39.9 million in 2016 (2015 restated: $79.7 million) not held at fair value (see note 5) are excluded from these tables. Assets held in exchange-traded funds or externally managed specialty funds are included as United States dollar assets.

(Percentage)

| | *As at 31 December 2016* | | | | | | |
|---|---|---|---|---|---|---|---|
| *Currency* | *Equity* | *Fixed income* | *Real assets* | *Alternative and other investments* | *Short-term* | *Cash* | *Total* |
| United States dollar | 38.47 | 11.49 | 5.64 | 2.60 | 0.25 | 2.52 | 60.97 |
| Euro | 6.09 | 3.79 | 0.46 | 0.45 | 0.90 | 0.02 | 11.71 |
| Japanese yen | 4.75 | 2.48 | 0.22 | – | – | 0.00 | 7.45 |
| British pound sterling | 3.64 | 0.94 | 0.17 | – | – | 0.00 | 4.75 |
| Canadian dollar | 1.97 | 0.67 | 0.16 | – | – | 0.00 | 2.80 |
| Australian dollar | 1.24 | 0.54 | 0.31 | – | – | 0.03 | 2.12 |
| Hong Kong dollar | 2.00 | – | – | – | – | 0.00 | 2.00 |
| Swiss franc | 1.71 | – | – | – | – | 0.00 | 1.71 |
| Republic of Korea won | 0.85 | 0.37 | – | – | – | 0.00 | 1.22 |
| Polish zloty | – | 0.84 | – | – | – | 0.09 | 0.93 |
| Mexican peso | 0.17 | 0.53 | – | – | – | 0.02 | 0.72 |
| Swedish krona | 0.43 | 0.18 | – | – | – | 0.11 | 0.72 |
| Norwegian krone | 0.03 | 0.31 | – | – | 0.17 | 0.00 | 0.51 |
| Indian rupee | 0.39 | – | – | – | – | 0.06 | 0.45 |
| Brazilian real | 0.40 | – | – | – | – | 0.00 | 0.40 |
| South African rand | 0.34 | – | – | – | – | 0.00 | 0.34 |
| Malaysian ringgit | 0.10 | 0.20 | – | – | – | 0.01 | 0.31 |
| Singapore dollar | 0.23 | 0.07 | – | – | – | 0.00 | 0.30 |
| Danish krone | 0.25 | – | – | – | – | 0.00 | 0.25 |
| New Zealand dollar | 0.01 | 0.09 | – | – | – | 0.00 | 0.10 |
| Philippine peso | 0.10 | – | – | – | – | 0.00 | 0.10 |
| Turkish lira | 0.08 | – | – | – | – | 0.00 | 0.08 |
| Chilean peso | – | 0.06 | – | – | – | 0.00 | 0.06 |
| Hungarian forint | – | – | – | – | – | 0.00 | 0.00 |
| CFA franc | – | – | – | – | – | 0.00 | 0.00 |
| Pakistan rupee | – | – | – | – | – | 0.00 | 0.00 |
| **Total** | **63.25** | **22.56** | **6.96** | **3.05** | **1.32** | **2.86** | **100.00** |

(Percentage)

| | As at 31 December 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| *Currency* | *Equity* | *Fixed income* | *Real assets* | *Alternative and other investments* | *Short-term* | *Cash* | *Total* |
| United States dollar | 37.65 | 12.82 | 5.13 | 3.20 | 0.61 | 2.21 | 61.62 |
| Euro | 6.05 | 3.98 | 0.37 | 0.34 | 0.42 | 0.01 | 11.17 |
| British pound sterling | 3.96 | 1.24 | 0.18 | – | – | 0.35 | 5.73 |
| Japanese yen | 5.00 | 1.40 | 0.19 | – | – | 0.02 | 6.61 |
| Canadian dollar | 1.46 | 0.70 | 0.15 | – | – | 0.01 | 2.32 |
| Australian dollar | 1.24 | 0.75 | 0.18 | – | – | 0.01 | 2.18 |
| Swiss franc | 1.87 | – | – | – | – | 0.01 | 1.88 |
| Hong Kong dollar | 1.70 | – | – | – | – | 0.01 | 1.71 |
| Republic of Korea won | 0.76 | 0.42 | – | – | – | 0.00 | 1.18 |
| Polish zloty | 0.00 | 1.03 | – | – | – | 0.00 | 1.03 |
| Swedish krona | 0.64 | 0.23 | – | – | – | 0.00 | 0.87 |
| Mexican peso | 0.19 | 0.56 | – | – | – | 0.17 | 0.92 |
| Malaysian ringgit | 0.11 | 0.30 | – | – | – | 0.03 | 0.44 |
| Norwegian krone | 0.02 | 0.38 | – | – | – | 0.00 | 0.40 |
| Indian rupee | 0.48 | – | – | – | – | 0.00 | 0.48 |
| Singapore dollar | 0.25 | 0.07 | – | – | – | 0.00 | 0.32 |
| Brazilian real | 0.15 | 0.00 | – | – | – | 0.00 | 0.15 |
| South African rand | 0.26 | – | – | – | – | 0.00 | 0.26 |
| Danish krone | 0.37 | – | – | – | – | – | 0.37 |
| Turkish lira | 0.07 | – | – | – | – | 0.03 | 0.10 |
| Philippine peso | 0.15 | – | – | – | – | – | 0.15 |
| New Zealand dollar | 0.00 | 0.10 | – | – | – | 0.01 | 0.11 |
| Hungarian forint | 0.00 | – | – | – | – | – | 0.00 |
| Pakistan rupee | – | – | – | – | – | 0.00 | 0.00 |
| CFA franc | – | – | – | – | – | 0.00 | 0.00 |
| **Total** | **62.38** | **23.98** | **6.20** | **3.54** | **1.03** | **2.87** | **100.00** |

*Interest rate risk*

199. Interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value of financial assets and liabilities and future cash flows. The Fund holds fixed interest rate securities, floating rate debt, cash and cash equivalents that expose the Fund to interest rate risk.

200. The table below summarizes the Fund's relative sensitivity to interest rate changes versus its reference benchmark of the Barclays Global Aggregate Index. This measure of duration for the portfolio indicates the approximate percentage change in the value of the portfolio if interest rates change by 100 basis points.

(Percentage)

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | *Fund* | *Benchmark* | *Fund* | *Benchmark* |
| Effective duration | 6.81 | 6.90 | 3.65 | 6.60 |

201. Effective duration is the sensitivity to interest rates. This means if the interest rate changes by 1 per cent, the Fund can lose or gain approximately 6.8 per cent (2015: 3.6 per cent) compared with the benchmark, which can lose or gain approximately 6.9 per cent (2015: 6.6 per cent). This primarily arises from the increase/decrease in the fair value of fixed interest securities.

## Note 22
## Budget information

### 22.1 Movement between original and final budgets

(Thousands of United States dollars)

| | *Initial appropriation 2016* | *2015 budget balance carried forward* | *Approved increases decreases* | *Final appropriation 2016* |
|---|---|---|---|---|
| Administrative costs | 45 772 | – | – | 45 772 |
| Investment costs | 42 435 | – | – | 42 435 |
| Audit costs | 1 475 | – | – | 1 475 |
| Board expenses | 477 | – | – | 477 |
| **Total** | **90 159** | **–** | **–** | **90 159** |

202. In its resolution 71/265, the General Assembly approved the appropriation for the biennium 2016-2017.

### 22.2 Reconciliation between the actual amounts on a comparable basis and the statement of changes in net assets available for benefits

203. Differences between the actual amounts on a comparable basis with the budget and the actual amounts recognized in the financial statements can be classified as follows:

(a) Basis differences, which occur when the approved budget is prepared on a basis other than the accounting basis, as stated in note 3.14;

(b) Timing differences, which occur when the budget period differs from the reporting period reflected in the financial statements. There are no timing differences for the Pension Fund for the purpose of comparison of budget and actual amounts;

(c) Entity differences, which occur when the budget omits programmes or entities that are part of the entity for which the financial statements are prepared. There are no entity differences for the Pension Fund.

(Thousands of United States dollars)

| | *2016* | *2015* |
|---|---|---|
| **Actual amount on a comparable basis** | **58 363** | **55 846** |
| **Basis differences** | | |
| Asset additions/disposals | (2 930) | (6 974) |
| Depreciation, amortization and impairment | 8 142 | 4 120 |
| Unliquidated obligations | 1 159 | 11 594 |
| Prepayments | 289 | (407) |
| Employee benefits | 6 333 | (6 674) |
| Other accruals | 3 408 | (836) |
| **Actual amount for administrative expenses in the statement of changes in net assets available for benefits** | **74 764** | **56 669** |

204. The above reconciliation illustrates key differences between total administrative expenditure on a budget basis (modified cash basis) and total expenditure on an IPSAS basis. The main differences can be categorized as follows:

- *Depreciation expense*. Fixed assets and intangible assets meeting the threshold for capitalization are capitalized and depreciated over their useful lives on an IPSAS basis. Only depreciation expense is recognized over the useful lives of the asset whereas the total expense is recognized on a budget basis at the time of acquisition.
- *Expense recognition*. On a budget basis expenditure is recognized at the time of disbursement or commitment as unliquidated obligations. Under IPSAS, expenses are recognized at the time goods or services have been received. Unliquidated obligations for goods or services not received or prepayments are not recognized as expense. Economic services received but not paid for are recognized as expense under IPSAS.
- *Employee benefits*. On a budget basis, employee benefit expenses are recognized when the benefit is paid. Under IPSAS, an expense for an employee benefit should be recognized in the period in which the benefit is earned, regardless of the time of payment. IPSAS therefore recognizes expenses for post-employment benefits such as after-service health insurance, annual leave or repatriation benefits.

## Note 23
## Funds under management

205. Funds under management are defined as other United Nations funds for which the Fund has engaged the services of external fund managers, independent of the Fund.

206. Pursuant to General Assembly resolution 2951 establishing the United Nations University and Assembly resolution 3081 and article IX of the charter of the University (A/9149/Add.2), the Investment Management Division provides oversight services for the investments of the United Nations University Endowment Fund that are currently outsourced to Nikko Asset Management with a separate

custodian bank. Formal arrangements between the Investment Management Division and the Endowment Fund regarding these services have been agreed upon. Resulting funds are reflected in the accounts of the United Nations University. There is no commingling of investment funds with those of the Pension Fund, which are maintained separately. The costs of Investment Management Division management advisory fees amounting to $50,000 per year are reimbursed by the Endowment Fund to the Division and recorded as other income.

## Note 24
## Related party transactions

### Key management personnel

207. Details of the remuneration to key management personnel by the Fund for the years ended 31 December 2016 and 31 December 2015 are as follows:

| | *Number of individuals* | *Compensation and post adjustment* | *Entitlements* | *Pension and health plans* | *Total remuneration* | *Outstanding advances against entitlements* | *Outstanding loans* |
|---|---|---|---|---|---|---|---|
| | | *(Thousands of United States dollars)* | | | | | |
| 2016 | 5 | 907 | 129 | 208 | 1 244 | – | – |
| 2015 | 5 | 848 | 67 | 192 | 1 107 | – | – |

208. Key management personnel are the Chief Executive Officer, the Representative of the Secretary-General, the Deputy Chief Executive Officer, the Director of the Investment Management Division and the Chief Financial Officer as they have the authority and responsibility for planning, directing and controlling the activities of the Pension Fund.

209. The aggregate remuneration paid to key management personnel includes net salaries, post adjustment, entitlements such as representation allowance and other allowances, assignment and other grants, rental subsidy, costs of shipment of personal effects and employer pension and current health insurance contributions.

210. There were no outstanding advances against entitlements of key management personnel as at 31 December 2016.

211. Key management personnel are also qualified for post-employment benefits (see note 11) at the same level as other employees. The actuarial valuation of the benefits for the key management personnel are as follows:

(Thousands of United States dollars)

| | *31 December 2016* | *31 December 2015* |
|---|---|---|
| After-service health insurance | 1 203 | 1 095 |
| Repatriation grant | 80 | 78 |
| Annual leave | 105 | 105 |
| Death benefit | 2 | 2 |
| **Total** | **1 390** | **1 280** |

**Other related parties**

212. While no transactions occurred with the parties listed below, they are considered as related parties and a summary of the Fund's relationship with these parties is provided.

*General Assembly*

213. The General Assembly is the highest legislative body for the Fund. It reviews reports submitted by the Pension Board, approves the budget of the Fund, decides on the admittance of new member organizations to the Fund and amends the Regulations of the Fund.

*Twenty-three member organizations participating in the Fund*

214. The member organizations of the Fund (which are international intergovernmental organizations) join the Fund by decision of the General Assembly and at the time of admission agree to adhere to the Regulations of the Fund. Each member organization has a staff pension committee and a secretary to the committee; the committees and their secretariat are an integral part of the Fund's administration.

*United Nations International Computing Centre*

215. The United Nations International Computing Centre was established in January 1971 pursuant to General Assembly resolution 2741 (XXV). The Centre provides information technology and communications services to partners and users in the United Nations system. As a partner bound by the mandate of the Centre, the Fund would be proportionately responsible for any third-party claim or liability arising from or related to service activities of the Centre, as specified in the Centre's mandate. As at 31 December 2016, there were no known claims having an impact on the Fund. Ownership of assets is with the Centre until dissolution. Upon dissolution, the division of all assets and liabilities among partner organizations shall be agreed by the Management Committee by a formula defined at that time.

216. The role of the Centre is:

- To provide information technology services on a full cost-recovery basis
- To assist in exploiting networking and computing technology
- To provide information management services
- To advise on questions related to information management
- To provide specialized training

**Note 25**
**Restatement and comparative numbers**

217. Immediately after the implementation of the Integrated Pension Administration System, the Fund experienced a substantial surge in new benefit cases submitted to the Fund for processing. This resulted in delays in the processing of new benefit cases and affected benefits payable for the years 2016 and 2015. The surge in the number of separations was associated with the downsizing of United Nations peacekeeping missions as well as efforts by member organizations to complete outstanding

separations. At the time of closing of the prior year financial statements, the Fund estimated the outstanding cases as at 31 December 2015 at $50.6 million on the basis of the best information available at the time. However, on the basis of the analysis of benefit expenses for the current year financial statement and considering the volume of "in transit" cases sent by employing entities to the Fund (a significant proportion of which was sent 120 days or more after the date of separation), the outstanding benefit expenses as at 31 December 2015 amounted to $187.4 million.

218. To reflect the additional information pertaining to the year 2015 gathered subsequent to the issuance of the 2015 financial statements and enhance the comparability of the information provided, the Fund has restated its previously issued financial statement for the year 2015. Taking the new estimate of benefit expenses for 2015 into account, total benefit liabilities as at 31 December 2015 amount to $226.4 million rather than $89.6 million as previously reported, and benefit expenses amount to $2,498.0 million rather than $2.361.1 million as previously reported.

219. The change in benefits payable is as follows:

(Thousands of United States dollars)

| | *Previously reported 31 December 2015* | *Adjustment* | *Restated 31 December 2015* |
|---|---|---|---|
| Withdrawal settlements | 35 896 | 54 277 | 90 173 |
| Lump sum payments | 15 228 | 69 094 | 84 322 |
| Periodic benefits payable | 38 527 | 13 456 | 51 983 |
| Other benefits payable | (57) | – | (57) |
| **Total** | **89 594** | **136 827** | **226 421** |

220. The change in benefit expenses is as follows:

(Thousands of United States dollars)

| | *Previously reported 31 December 2015* | *Adjustment* | *Restated 31 December 2015* |
|---|---|---|---|
| Withdrawal settlements and full commutation of benefits | | | |
| For contributory service of five years or less | 49 961 | 5 226 | 55 187 |
| For contributory service of more than five years | 88 990 | 49 051 | 138 041 |
| | **138 951** | **54 277** | **193 228** |
| Retirement benefits | | | |
| Full retirement benefits | 1 192 463 | 57 171 | 1 249 634 |
| Early retirement benefits | 622 854 | 20 407 | 643 261 |
| Deferred retirement benefits | 90 020 | 486 | 90 506 |
| Disability benefits | 63 290 | 619 | 63 909 |
| Survivor benefits | 228 027 | 3 582 | 231 609 |
| Child benefits | 25 765 | 285 | 26 050 |
| | **2 222 419** | **82 550** | **2 304 969** |

| | *Previously reported 31 December 2015* | *Adjustment* | *Restated 31 December 2015* |
|---|---|---|---|
| Other benefits/adjustments | | | |
| Payments for participants transferred out under agreements | 141 | – | 141 |
| Other benefits/adjustments | (380) | – | (380) |
| | (239) | – | (239) |
| **Total benefit expenses for the period** | **2 361 131** | **136 827** | **2 497 958** |

## Note 26
## Subsequent events

221. At the time of issuance of the financial statements, the management of the Fund is not aware of any reportable event after the reporting date in accordance with IPSAS 14.

# Annex to the notes to the financial statements

## Statistics on the operations of the United Nations Joint Staff Pension Fund

Table 1
**Number of participants**

| *Member organization* | *Participants as at 31 December 2015* | *New entrants* | *Transfers* | | *Separations* | *Participants as at 31 December 2016* | *Percentage increase (decrease)* |
|---|---|---|---|---|---|---|---|
| | | | *In* | *Out* | | | |
| United Nations[a] | 86 880 | 7 577 | 209 | 234 | 7 321 | 87 111 | 0.3 |
| International Labour Organization | 3 760 | 373 | 28 | 20 | 435 | 3 706 | (1.4) |
| Food and Agriculture Organization of the United Nations | 10 062 | 1 025 | 70 | 93 | 746 | 10 318 | 2.5 |
| United Nations Educational, Scientific and Cultural Organization | 2 445 | 156 | 9 | 15 | 183 | 2 412 | (1.3) |
| World Health Organization | 10 536 | 1 105 | 76 | 55 | 938 | 10 724 | 1.8 |
| International Civil Aviation Organization | 787 | 84 | 7 | 6 | 74 | 798 | 1.4 |
| World Meteorological Organization | 350 | 25 | 6 | 3 | 27 | 351 | 0.3 |
| International Atomic Energy Agency | 2 666 | 210 | 16 | 14 | 197 | 2 681 | 0.6 |
| International Maritime Organization | 284 | 14 | 3 | 3 | 14 | 284 | 0.0 |
| International Telecommunication Union | 779 | 29 | 7 | 4 | 43 | 768 | (1.4) |
| World Intellectual Property Organization | 1 233 | 66 | 12 | 10 | 76 | 1 225 | (0.6) |
| International Fund for Agricultural Development | 578 | 35 | 11 | 5 | 24 | 595 | 2.9 |
| International Centre for the Study of the Preservation and Restoration of Cultural Property | 33 | 5 | – | – | 1 | 37 | 12.1 |
| European and Mediterranean Plant Protection Organization | 17 | 2 | – | – | 1 | 18 | 5.9 |
| International Centre for Genetic Engineering and Biotechnology | 171 | 11 | – | – | 14 | 168 | (1.8) |
| World Tourism Organization | 97 | 4 | – | 2 | 8 | 91 | (6.2) |
| International Tribunal for the Law of the Sea | 38 | 3 | 2 | – | 4 | 39 | 2.6 |
| International Seabed Authority | 33 | 2 | – | – | – | 35 | 6.1 |
| United Nations Industrial Development Organization | 697 | 29 | 1 | 6 | 52 | 669 | (4.0) |
| International Criminal Court | 1 004 | 136 | 35 | 10 | 66 | 1 099 | 9.5 |
| Inter-Parliamentary Union | 46 | 2 | – | – | 1 | 47 | 2.2 |
| International Organization for Migration | 3 924 | 1 029 | 18 | 19 | 328 | 4 624 | 17.8 |
| Special Tribunal for Lebanon | 472 | 42 | 10 | 21 | 41 | 462 | (2.1) |
| **Total** | **126 892** | **11 964** | **520** | **520** | **10 594** | **128 262** | **1.1** |

[a] United Nations Headquarters, regional offices and all funds and programmes.

Table 2
**Benefits awarded to participants or their beneficiaries during the year ended 31 December 2016**

| | *Number of benefits awarded* | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | *Withdrawal settlement* | | | | | | | | |
| *Member organization* | *Retirement benefit* | *Early retirement benefit* | *Deferred retirement benefit* | *Under 5 years* | *Over 5 years* | *Child benefit* | *Widow and widower benefit* | *Other death benefit* | *Disability benefit* | *Secondary dependent benefit* | *Transfer under agreement* | *Total* |
| United Nations[a] | 1 247 | 572 | 121 | 2 842 | 2 221 | 1 240 | 83 | 24 | 83 | 2 | – | 8 435 |
| International Labour Organization | 98 | 34 | 5 | 234 | 55 | 54 | 2 | – | 4 | – | – | 486 |
| Food and Agriculture Organization of the United Nations | 200 | 119 | 6 | 271 | 113 | 220 | 9 | 2 | 11 | – | – | 951 |
| United Nations Educational, Scientific and Cultural Organization | 72 | 19 | 5 | 59 | 17 | 28 | 6 | – | 5 | – | – | 211 |
| World Health Organization | 294 | 93 | 33 | 363 | 128 | 257 | 15 | 1 | 9 | – | – | 1 193 |
| International Civil Aviation Organization | 29 | 11 | 5 | 25 | 4 | 1 | – | – | – | – | – | 75 |
| World Meteorological Organization | 10 | 2 | – | 10 | 2 | 2 | – | – | 3 | – | – | 29 |
| International Atomic Energy Agency | 64 | 45 | 7 | 62 | 11 | 32 | 2 | – | 7 | – | – | 230 |
| International Maritime Organization | 10 | 3 | – | – | 1 | 1 | – | – | – | – | – | 15 |
| International Telecommunication Union | 14 | 5 | – | 17 | 2 | 8 | 1 | 1 | 4 | – | – | 52 |
| World Intellectual Property Organization | 22 | 15 | 2 | 26 | 6 | 8 | 1 | – | 5 | – | – | 85 |
| International Fund for Agricultural Development | 12 | 2 | – | 4 | 1 | 8 | – | – | 2 | – | – | 29 |
| International Centre for the Study of the Preservation and Restoration of Cultural Property | 1 | – | – | – | – | – | – | – | – | – | – | 1 |
| European and Mediterranean Plant Protection Organization | – | 1 | – | – | – | – | – | – | – | – | – | 1 |
| International Centre for Genetic Engineering and Biotechnology | 3 | 3 | 3 | 2 | 3 | – | – | – | – | – | – | 14 |
| World Tourism Organization | 3 | 3 | 1 | 1 | – | 1 | – | – | – | – | – | 9 |
| International Tribunal for the Law of the Sea | 3 | – | – | – | – | 3 | – | – | 1 | – | – | 7 |
| International Seabed Authority | – | – | – | – | – | – | – | – | – | – | – | – |
| United Nations Industrial Development Organization | 28 | 9 | 2 | 10 | 4 | 7 | 1 | 2 | – | – | – | 63 |
| International Criminal Court | 5 | 4 | – | 28 | 21 | 4 | 1 | – | 1 | – | – | 64 |
| Inter-Parliamentary Union | 1 | – | – | – | – | – | – | – | – | – | – | 1 |
| International Organization for Migration | 13 | 6 | 6 | 208 | 77 | 14 | 3 | 1 | 3 | – | – | 331 |
| Special Tribunal for Lebanon | 2 | 4 | 1 | 24 | 4 | 5 | – | – | – | – | – | 40 |
| **Total** | **2 131** | **950** | **197** | **4 186** | **2 670** | **1 893** | **124** | **31** | **138** | **2** | – | **12 322** |

[a] United Nations Headquarters, regional offices and all funds and programmes.

Table 3
**Analysis of periodic benefits for the year ended 31 December 2016**

| *Type of benefit* | *Total as at 31 December 2015* | *New* | *Benefits discontinued resulting in award of survivor benefit* | *All other benefits discontinued* | *Total as at 31 December 2016* |
|---|---|---|---|---|---|
| Retirement | 26 275 | 2 131 | (287) | (455) | 27 664 |
| Early retirement | 15 525 | 950 | (149) | (216) | 16 110 |
| Deferred retirement | 7 536 | 197 | (35) | (150) | 7 548 |
| Widow | 10 843 | 107 | 679 | (390) | 11 239 |
| Widower | 901 | 17 | 75 | (25) | 968 |
| Disability | 1 409 | 138 | (21) | (26) | 1 500 |
| Child | 8 947 | 1 893 | - | (1 119) | 9 721 |
| Secondary dependant | 38 | 2 | 2 | (4) | 38 |
| **Total** | **71 474** | **5 435** | **264** | **(2 385)** | **74 788** |

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